

6/23/77 [2]

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THE WHITE HOUSE

WASHINGTON

June 23, 1977

Jack Watson
Stu Eizenstat
Z. Brzezinski

Re: Cabinet Meeting Minutes

The attached was returned in the President's
outbox and is forwarded to you for your
information and appropriate action.

Rick Hutcheson

THE WHITE HOUSE
WASHINGTON

*orig of minutes to
TW*

ACTION
FYI

<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input checked="" type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input checked="" type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day	

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input checked="" type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
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<input type="checkbox"/>	JAGODA
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<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE WHITE HOUSE
WASHINGTON

6-23-77

To Jack, Stu, Jib

In the future, if
all three of you ap-
prove the minutes,
do not submit them
to me except for
an info copy

JC.

**Electrostatic Copy Made
for Preservation Purposes**

ok
JC

THE WHITE HOUSE

WASHINGTON

MINUTES OF THE CABINET MEETING

Monday, June 20, 1977

The nineteenth meeting of the Cabinet was called to order by the President at 9:04 a.m., Monday, June 20, 1977. All members of the Cabinet were present except Mr. Bergland, who was represented by Deputy Secretary of Agriculture John White. Other persons present were:

Joe Aragon
Bill Cable
Doug Costle
Stu Eizenstat
Jane Frank
Rex Granum
Joanne Hurley
Jim King
Tim Kraft

Bob Lipshutz
Bunny Mitchell
Dick Moe
Frank Moore
Frank Press
Jay Solomon
Stansfield Turner
Charles Warren
Jack Watson

The President asked for comments from Cabinet members, beginning with the Secretary of Interior:

1. Mr. Andrus said that he has just returned from several days in the West fully confirmed in his opinion that "Washington, D.C., is not the real world."

-- He does not anticipate any problems with the opening of the Alaskan North Slope pipeline today.

-- The President said that he would like to discuss several water projects with Mr. Andrus.

2. Mr. Califano reported that he addressed the American Medical Association in San Francisco this past weekend on the economics of health care. He also attended several AMA meetings and described that organization as "unhappy with this Administration."

-- Mr. Califano reported that the House lived up to its agreement on the HEW appropriations bill and held add-ons to \$1.8 billion, \$1.1 billion of which is in the education area. The Senate begins mark-up on the bill today,

and Appropriations Subcommittee Chairman Magnuson has agreed to oppose the add-ons and to try to change certain other language added by the House. For example, Mr. Califano said that he is very troubled by the "affirmative action" rider added by the House which bans "ratios and other numerical requirements" as well as "quotas." Another amendment bars HEW's interpretation of the Byrd amendment pertaining to funds for school desegregation. Mr. Califano noted that the parliamentary situation on the House floor forced a blanket prohibition against abortion. He predicted that the Senate would modify this language.

-- The President inquired about the level of funding for cancer research. Mr. Califano thinks it is too high, despite the testimony of Benno C. Schmidt, Chairman of the President's Cancer Advisory Panel. Mr. Strauss pointed out that Mr. Schmidt is an able and impressive advocate and suggested that it would be helpful for the President to meet with him to discuss the subject. Mr. Califano added that several influential Senators are also advocates of the high funding figures for cancer research. He noted that Congressman Obey, on the other hand, has stated that the funding level is too high.

3. Mr. Vance summarized the comprehensive test ban discussions held in Washington last week: The Soviets seemed more forthcoming in their discussions on the banning of nuclear test ban explosions; the term of a treaty was set between two to five years; and it was agreed that multi-country discussions would begin on July 3, 1977.

-- Talks will begin Wednesday in Moscow on arms control in the Indian Ocean.

-- The Belgrade Conference is underway. The U.S. has suggested dividing the group into three working committees for in-depth review of each of the following topics: 1) principles and confidence-building measures; 2) cooperation in economics, science, technology, and environment; 3) human contacts, information, culture and education. The Soviets want a plenary session, which, according to Mr. Vance, would prevent any detailed focus. He described the general atmosphere of the meeting as "businesslike."

-- Mr. Vance said that Germany has made an important change of position by pledging not to transfer sensitive nuclear technology in the future. This brings Germany into line with France on the subject.

-- Australian Prime Minister J. Malcolm Fraser will visit the United States later this week.

-- Mr. Vance noted a problem over the weekend with the Canadian Fisheries Agreement. In response to a U.S. communique on salmon fishing in the State of Washington, the Canadians threatened to seize American shrimp boats. The U.S. has forwarded a new proposal which should clear up the situation.

-- The State Department has received a number of unconfirmed reports that Ugandan President Idi Amin Dada has disappeared and possibly has been assassinated.

-- In response to a question from the President, Mr. Vance commented briefly on the recent Organization of American States meeting in Grenada. The U.S. spoke third-- after Argentina and Chile. Both of those countries urged the need to fight international terrorism with counter-terrorism. In his remarks, Mr. Vance stressed that counter-terrorism was not the way to deal with the problem and spelled out the U.S. view on how violations of human rights should be approached. He also spoke about the need for organizational change in the OAS and urged that the three-part structure of the organization be merged into one committee. Additional discussion focused on cutting back the bureaucracy and reviewing the dues structure. Mr. Vance also described his personal discussions with Trinidad's Prime Minister Eric Williams, a senior OAS spokesman, about streamlining the OAS. Mr. Vance suggested that Ambassador Young follow up on the contacts made at the Grenada meeting on his forthcoming trip to the Caribbean.

4. Mr. Schultze was in Paris last week for a meeting of the Economic Policy Committee of the Organization of Economic Cooperation and Development (OECD). He summarized the world economic outlook for industrialized countries as follows: Growth of OECD countries will be 4% in 1977 and 3% for the first quarter of 1978. Outside the U.S., unemployment will rise in 1977 and 1978--it now stands at 15 million, approximately half of which is in the U.S. He noted that Japan and Germany are not likely to meet the growth targets they set at the International Economic Summit. The President and Messrs. Schultze and Blumenthal discussed ways to spur countries to meet their growth targets--focusing now primarily on 1978 since it is too late to influence results for 1977.

5. Dr. Brzezinski said that in two major areas the Administration's foreign policy is already having global impacts: nuclear non-proliferation and human rights.

-- Last week, the NSC held internal meetings and worked with the Vice President and members of Congress on the Middle East. The most explicit statement of the U.S. position on the Middle East is contained in the Vice President's speech delivered in San Francisco last Friday.

-- The NSC also reviewed a comprehensive report on reorganizing the Intelligence community. A review committee, chaired by the Vice President and the Attorney General, is working on legislation in this area. Dr. Brzezinski said that there are eight basic options under review, and that a proposal will be ready next week. Other issues currently being studied by the NSC are U.S. military presence in the Indian Ocean; chemical warfare (where the NSC proposed and the President approved seeking a total ban); and follow-up on Mrs. Carter's trip to Latin America.

6. Mr. Young said that the Security Council is meeting this week on the Rhodesian incursions into Mozambique.

-- Ambassador Don McHenry is back from South Africa and met with the Vice President and Mr. Vance last week. The Vice President and Mr. Young discussed the new, more flexible attitude of South African Prime Minister Vorster on Namibia and the role that South West African People's Organization (SWAPO) can be expected to play. Mr. Young pointed out that the Organization of African Unity (OAU) will be a key force in persuading SWAPO to accept a settlement in the area. The OAU is meeting in Gabon next week, and several U.S. representatives will be present.

-- Mr. Young described frequent social contacts with the Soviets in New York. Mr. Vance said that the Soviets are also in frequent touch with the State Department in Washington. The President said that he favors our keeping every possible avenue open with the Soviets. He also commented that it was good that Mr. Brezhnev is now the official leader of the USSR. The President indicated his desire to find a convenient time to conduct broad-based discussions with Mr. Brezhnev.

-- Mr. Vance suggested that Cabinet members read an article by Peter Osnos on the USSR in yesterday's Washington Post.

7. Mr. Marshall has just returned from four days at the International Labor Organization (ILO) Conference in Geneva. Although results are "mixed", the U.S. has

accomplished most of what it set out to do at the meeting, and several foreign leaders were publicly supportive of our aims.

-- Mr. Marshall also met in Geneva with the labor ministers of several countries. They expressed a strong desire to keep the U.S. in the ILO and predicted that a U.S. withdrawal from the ILO would, in all likelihood, be fatal to the organization. The labor ministers were also interested in expanding technical cooperation and in our approach to the problems of youth unemployment.

-- Mr. Marshall explained that frequent wildcat strikes have depleted the health and welfare funds of the UMW, and that the union may now be forced to cut health benefits. The UMW board meets today; if such a decision is made, a series of protest strikes might follow. Mr. Marshall said that plans are underway to form a committee within the government to review the situation.

8. Attorney General Bell was in Canada last Friday and Saturday negotiating with the Minister of Justice concerning the extra-territorial effect of U.S. laws.

-- He said that the Korean CIA investigation is still underway in the Justice Department, and that there is absolutely no truth to recent press reports that Justice is "playing politics" with the investigation.

-- The President discussed the burdens imposed by a requirement in the Landrum Griffin Act that the Justice Department monitor union elections. The Attorney General stated that these monitoring requirements were more extensive than in the Voting Rights Act and that he would look into the situation with Mr. Marshall.

9. The Vice President reported that Mr. Andrus' trip to California was extremely well received, and that, during his own recent trip to San Francisco, he heard many compliments on Mr. Andrus.

10. Mr. Blumenthal said that he will testify later this morning on legislation to establish NOW accounts (checking accounts that pay interest). The idea has been tried in New England and will require uniform reserve requirements as well as a role by the Federal Reserve Board regarding initial interest payments. Mr. Blumenthal said that Arthur Burns would also testify on the bill. He estimated that the legislation has a 50/50 chance of passage. There is considerable disagreement among Federal financial institutions on the bill.

-- Treasury officials have been meeting with various groups on the tax reform package. Later today, Mr. Blumenthal will brief Ms. Kreps and Messrs. Califano and Marshall on the subject.

11. Mr. John White said that Mr. Bergland is winding up his Far East trip.

-- The Agriculture appropriations bill is on the House floor today, and the sugar provision will be controversial.

-- Late last Friday, 130 counties in Georgia were declared eligible for drought assistance. The President and several Cabinet members discussed the length and severity of the drought.

12. Ms. Harris described her recent visit to the U.S. Conference of Mayors meeting in Tucson. A resolution was passed unanimously complimenting HUD and the Administration for their urban initiatives.

-- The HUD appropriations bill passed the House.

-- The conference begins this week on the HUD authorizations bill, and Ms. Harris said that some minor questions are complicating the situation.

-- The President noted that virtually every resolution passed by the U.S. Conference of Mayors in the last six to eight years--with the exception of this recent Conference--has condemned the Administration. He expressed sympathy for the difficult problems with which mayors must constantly deal and appreciation for their support.

13. Dr. Schlesinger said that the utilities are lobbying against the coal conversion proposal in the energy plan. The liberals are raising environmental objections, and the Republicans are offering flat opposition. Notwithstanding these problems, results of the recent votes in the Ways and Means Committee were excellent. He asked the President for permission to negotiate on the gas guzzler tax, and the President noted that the Senate was more strongly in favor of the Administration's position than the House.

-- Dr. Schlesinger said that sentiment in the Congress was strongly in favor of retention of the nuclear fission option, and that the Clinch River power plant could only be killed on efficiency grounds. The President said that he has heard comments that the Administration speaks with an "uncertain voice" on Clinch River. Dr. Schlesinger said that ERDA had supported the Clinch River project for five

years, and that although now the top people at ERDA are doing everything they can to reinforce the President's position, there are some problems of support at the lower levels in the Agency. Dr. Schlesinger said that he would speak to the President about additional steps that might be taken to improve the situation.

14. The President told Mr. Strauss that he likes the idea expressed in Mr. Strauss' weekly summary of putting together a trade group to visit Latin American as a follow-up to Mrs. Carter's trip. The President said that concern was expressed about U.S. beef import quotas; he asked Mr. John White to look into our allocation program. The President made it clear that he was not proposing an increase in overall levels, but rather a review of the U.S. allocation among countries.

15. Mr. Lance said that the spring budget review process will be completed this week, and that spending ceilings will be released next week.

-- Employees' ceilings were approved by the President and sent out over the weekend. Mr. Lance said that Jim King will be calling Cabinet Secretaries concerning some people who need to be placed.

16. Mr. Adams will complete work within the next ten days on an automobile legislative package. He asked to meet briefly with the President on the issue of passive restraints in automobiles since a decision on that subject must be made by July 1. He underscored the comprehensive nature of his automobile proposals and said that emissions, mileage and safety features will all be included.

-- In recent speeches, Mr. Adams has tried to illustrate and emphasize the connection between the human rights theme and U.S. energy policy. Basically, he has pointed out that the U.S. is attempting to show by its own affirmative actions that it will conserve the world's resources.

-- The DOT appropriations bill should be finished this week and should be held within the Administration's budget level.

-- Today is the final day for U.S./U.K. air negotiations. Mr. Adams is still optimistic that an agreement will be signed. In his opinion, an extension of time would not be helpful since the basic issues have been under hard consideration for six months. He has conferred with every

affected U.S. airline, all of which are prepared to move to alternate routes as of midnight Tuesday if an agreement is not reached. The President said he wants to be kept up to date on this issue and stressed that the American people do not yet understand it. Mr. Strauss observed that our positions on these issues and on airline deregulation are extremely politically saleable if they are properly explained. Mr. Adams said that a statement has been prepared in the event that the U.S. and U.K. fail to reach agreement. The President emphasized that a clear and simple explanation of the primary issues will need to be made to the public.

17. Ms. Kreps said that she has sent the President a memorandum on cargo preference.

-- The Commerce Department has been working closely with Stu Eizenstat's staff on regulations to implement the anti-boycott legislation which recently passed the Congress. Mr. Vance said that the reactions of many foreign governments to the legislation have been good, and that the Saudi's need to be kept informed. Attorney General Bell emphasized the importance of letting foreign governments know how they can comment on the regulations. The President suggested that Ms. Kreps invite foreign ambassadors in for a briefing on the proposed regulations, and Mr. Vance said that this procedure would be most helpful. Mr. Califano pointed out that most foreign governments have Washington counsel who represent their interests in formal administrative proceedings, and that any special meetings should not be inconsistent with these formal legal channels. Ms. Kreps said that the legislation is specific and does not leave much flexibility for the regulations, but Mr. Strauss said that perception is the opposite and that most observers believe there is considerable flexibility.

18. Dr. Brown said that plans are going forward regarding his consultations with Korean officials next month. He reported that the Koreans and the Japanese appear to be adjusting well to our new policy in the area. Dr. Brown is also developing recommendations on arms transfers and credits. Congress has set a number of hearings on our Korea policy--both in the House and Senate. Admiral Turner, General George Brown and others have been called to testify. Dr. Brzezinski said that the Senate Foreign Relations Committee wants the NSC to release a CIA document on the withdrawal of ground troops from Korea. He has declined the request on grounds that this would compromise the President's decision-making process. He plans to brief the Committee on the subject.

-- The House and Senate committees have finished hearings on the DOD authorization and are working on their reports. Their money totals are close to Administration figures, but many details are quite different. It is already clear that the appropriations committees will not include everything in the authorizing legislation. The House appropriations committee has reduced the DOD budget by \$2.5 billion; the Senate is waiting to see what the final decision on authorization is before it acts. A key issue will be adding back funds for a nuclear carrier--presently not in the House appropriations committee draft. Dr. Brown then commented briefly on the length of the House appropriations committee report. Virtually everyone of the 300+ pages in the report contains detailed instructions to the Department. Other members of the Cabinet discussed similar problems their departments have with detailed Congressional directives in committee reports.

-- DOD will meet the OMB employee ceilings.

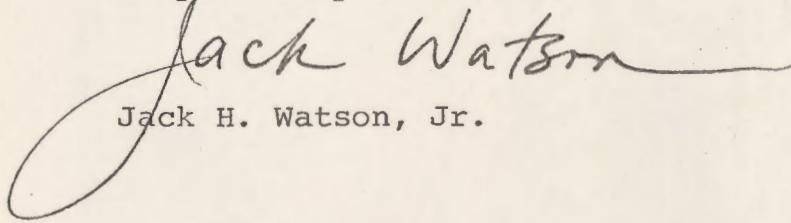
19. The President described Congressional cuts to his foreign aid proposals as "drastic" and said that some of the restrictions imposed are "debilitating."

-- He reiterated his request to Cabinet members to fill regional appointments promptly.

-- He urged Cabinet members to attend the Democratic fund raiser in New York on June 23. A special plane will be going up in the afternoon, and space may also be available on Air Force 1 and Air Force 2.

The meeting was adjourned by the President at 11:07 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jack Watson". The signature is written in dark ink and is positioned above the printed name.

Jack H. Watson, Jr.

THE WHITE HOUSE

WASHINGTON

June 23, 1977

Jack Watson
Stu Eizenstat
Robert Strauss

Re: Recommended Action on Exclusion
of Certain Exercising Devices
from Importation into the United States

The attached was returned in the President's
outbox and is forwarded to you for your
information and appropriate action.

Rick Hatcheson

cc: Bob Linder

4

THE WHITE HOUSE
WASHINGTON

ACTION	FYI		
		MONDALE	<input type="checkbox"/> ENROLLED BILL
		COSTANZA	<input type="checkbox"/> AGENCY REPORT
	<input checked="" type="checkbox"/>	EIZENSTAT	<input type="checkbox"/> CAB DECISION
		JORDAN	<input type="checkbox"/> EXECUTIVE ORDER
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		POWELL	48 hours; due to
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<input type="checkbox"/>	FIRST LADY	<input type="checkbox"/>	SCHNEIDERS
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<input type="checkbox"/>	HARDEN	<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	HOYT	<input type="checkbox"/>	SMITH
<input type="checkbox"/>	HUTCHESON	<input checked="" type="checkbox"/>	STRAUSS
<input type="checkbox"/>	JAGODA	<input type="checkbox"/>	WELLS
<input type="checkbox"/>	KING	<input type="checkbox"/>	VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE
WASHINGTON

June 21, 1977

MEMORANDUM TO: THE PRESIDENT
FROM: Jack Watson *Jack*
SUBJECT: RECOMMENDED ACTION ON EXCLUSION OF
CERTAIN EXERCISING DEVICES FROM
IMPORTATION INTO THE UNITED STATES

*ok, but -
In the future
let me know what
items are involved -
I
ps who is Trade
Policy Committee?*

On April 20, 1977, the United States International Trade Commission entered an order excluding certain patent-infringing articles from importation into the United States. By letter of that same date, the Chairman of the USITC transmitted the Commission's order and memorandum opinion to you, both of which were immediately referred to the Trade Policy Staff Committee for review and recommendation. By law, you have sixty days from receipt of the Commission's order to disapprove the Commission's remedy for policy reasons. In this case, the period for Presidential override expires on June 24, 1977.

The Trade Policy Staff Committee, on behalf of the Trade Policy Committee, recommends that no action be taken in this case, thereby allowing the exclusion order to become effective on June 24, 1977. It is their unanimous opinion that there are no policy reasons to support a Presidential decision to override the Commission's exclusion order since the action taken by the Commission is the only reasonable means of prohibiting foreign producers from importing certain patent-infringing articles into the United States.

The relatively small amount of trade in this particular item comes primarily from Taiwan and Hong Kong and is of little importance to their trade or ours. Moreover, domestic demand for the article can be met by production within the United States of a high quality, reasonably priced article.

If you accept the recommendation of the Trade Policy Committee, no action is required; the Commission's exclusion order will automatically become effective on June 24, 1977.

That is the recommended course.

Stu concurs with Jack.

☒ approve recommendation of Trade Policy Committee
☐ disapprove

JC

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USITC
ORDER

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

[337-TA-24]

CERTAIN EXERCISING DEVICES

Commission Determination and Order

On the basis of the record in investigation No. 337-TA-24, Certain Exercising Devices, the United States International Trade Commission, under the authority of section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), and the Administrative Procedure Act (5 U.S.C. 551 et seq.)--

1. Determines that there are violations of section 337 in the unlicensed importation into the United States of certain exercising devices by reason of their having been made in accordance with claims 1, 2, 6-10, and 12 of U.S. Patent No. 3,743,280 and in their unlicensed sale by the owner, importer, consignee, or agent of either, the tendency of which is to substantially injure an industry, efficiently and economically operated, in the United States;

2. Finds as a result of the determination of violation, and after considering the effect of an exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, that unlicensed articles, i.e., certain exercising devices, made in accordance with claims 1, 2, 6-10, and 12 of U.S. Patent No. 3,743,280, should be excluded from entry into the United States for the term of this patent; and

3. Determines that the bond provided for in section 337(g)(3) is to be as prescribed by the Secretary of the Treasury in the amount of 350 percent of the value of the articles concerned, f.o.b. foreign port. 1/

ACCORDINGLY, IT IS ORDERED--

1. Articles made in accordance with claims 1, 2, 6-10 and 12 of U.S. Patent No. 3,743,280 shall, upon the publication of this notice in the Federal Register and until the expiration of such patent, be excluded from entry into the United States except (1) as provided in paragraph 2 below of this order, or (2) as such importation is under sublicense of a U.S. licensee of said patent.

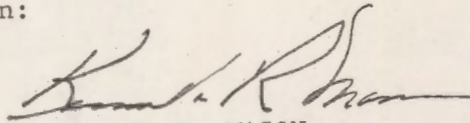
2. Notwithstanding the foregoing, from the day after the day this order is received by the President pursuant to section 337(g) of the Tariff Act of 1930, as amended, until such time as the President notifies the Commission that he approves this action, or the President disapproves this action, but, in any event, not later than sixty (60) days after such day of receipt, the articles concerned shall be entitled to entry under bond in the amount of three hundred and fifty per centum (350%) of the value, f.o.b. foreign port, of the articles concerned.

3. This order will be published in the Federal Register and served upon each party of record in this investigation and upon the

1/ Commissioner Ablondi dissents from this determination as it relates to the level of the bond provided for in section 337(g)(3).

U.S. Department of Health, Education, and Welfare, the U.S. Department of Justice, the Federal Trade Commission, and the Secretary of the Treasury.

By order of the Commission:

A handwritten signature in dark ink, appearing to read "Kenneth R. Mason", written in a cursive style.

KENNETH R. MASON
Secretary

Issued: April 20, 1977

THE WHITE HOUSE

WASHINGTON

June 21, 1977

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

[337-TA-24]

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2. Finds as a result of the determination of violation, and after considering the effect of an exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, that unlicensed articles, i.e., certain exercising devices, made in accordance with claims 1, 2, 6-10, and 12 of U.S. Patent No. 3,743,280, should be excluded from entry into the United States for the term of this patent; and

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1. Articles made in accordance with claims 1, 2, 6-10 and 12 of U.S. Patent No. 3,743,280 shall, upon the publication of this notice in the Federal Register and until the expiration of such patent, be excluded from entry into the United States except (1) as provided in paragraph 2 below of this order, or (2) as such importation is under sublicense of a U.S. licensee of said patent.

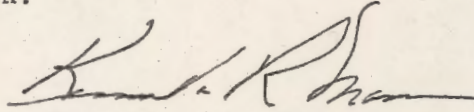
2. Notwithstanding the foregoing, from the day after the day this order is received by the President pursuant to section 337(g) of the Tariff Act of 1930, as amended, until such time as the President notifies the Commission that he approves this action, or the President disapproves this action, but, in any event, not later than sixty (60) days after such day of receipt, the articles concerned shall be entitled to entry under bond in the amount of three hundred and fifty per centum (350%) of the value, f.o.b. foreign port, of the articles concerned.

3. This order will be published in the Federal Register and served upon each party of record in this investigation and upon the

1/ Commissioner Ablondi dissents from this determination as it relates to the level of the bond provided for in section 337(g)(3).

U.S. Department of Health, Education, and Welfare, the U.S. Department of Justice, the Federal Trade Commission, and the Secretary of the Treasury.

By order of the Commission:

A handwritten signature in dark ink, appearing to read "Kenneth R. Mason", is written over a horizontal line.

KENNETH R. MASON
Secretary

Issued: April 20, 1977

THE WHITE HOUSE

WASHINGTON

Date: June 22, 1977

MEMORANDUM

FOR ACTION:

Stu Eizenstat/Bob Ginsberg *concur* Bob Linder

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: Jack Watson's memo 6/21/77 re Recommended Action
on Exclusion of Certain Exercising Devices From
Importation into the United States

YOUR RESPONSE MUST BE DELIVERED
TO THE STAFF SECRETARY BY:

TIME:

IMMEDIATE

DAY:

TURNAROUND

DATE:

ACTION REQUESTED:

☒ Your comments

Other:

STAFF RESPONSE:

☐ I concur.

☐ No comment.

Please note other comments below:

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately. (Telephone, 7052)

THE WHITE HOUSE
WASHINGTON

June 23, 1977

Hamilton Jordan
Jody Powell

For your information, the
attached letter from the President
was delivered today.

Rick Hutcheson

Re: Economic Policy

THE WHITE HOUSE
WASHINGTON

6-23-77

To Mike Blumenthal
Bert Lance
Charlie Schulze

Although it is important for you to consult with one another on administration economic policy, it is also important that each of you reserve the right to speak individually and independently whenever you consider it appropriate to do so. I've noticed that all three of you have already made a practice of doing this, and I have no objection.

Jimmy

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for Preservation Purposes

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 22, 1977

MEMORANDUM TO: THE PRESIDENT
FROM: Jack Watson *Jack*
SUBJECT: MEETING WITH MAYOR COLEMAN YOUNG AND
DELEGATION TO DISCUSS 1977 MOVING DETROIT
FORWARD PROGRAM - Thursday, June 23, 1977
11:00 a.m. - State Dining Room

BACKGROUND

As you know, Mayor Coleman Young is bringing a delegation of public and private officials here to brief you on the 1977 MOVING DETROIT FORWARD program and to seek your support in achieving their goals. Essentially, the program is a public and private cooperative investment of resources for the revitalization of Detroit. As is apparent from the attached guestlist, numerous large corporations, as well as representatives of labor, state government, and other citizens groups are involved in the program. The effort is unquestionably an excellent example of both public/private and state/federal and local partnership.

You are scheduled to attend the opening 20 minutes of the meeting. The Vice President plans to drop by the meeting shortly after your departure. At Mayor Young's request, I have also asked Secretaries Marshall, Harris and Adams to attend. Treasury will be represented by Deputy Secretary, Robert Carswell, and Commerce will be represented by the Assistant Secretary for Economic Development, Bob Hall.

The agenda is as follows:

- 10:55 All guests will be seated randomly at a conference table in the State Dining Room.
- 11:00 You arrive and sit at the head chair between Mayor Young and Thomas Murphy.
- 11:00- Mayor Young introduces members of the delegation and
11:05 outlines purpose of the meeting.
- 11:05- Thomas Murphy describes private sector participation
11:08 in MDF project.
- 11:08- Mayor Young describes public sector participation and
11:15 plans for the future.

11:15- Your comments (see suggested comments below).
11:20

SUGGESTED COMMENTS

The primary purpose of this meeting is to tell you and selected Members of the Cabinet what Detroit is doing in its own behalf and not to get specific federal commitments of support at this time. Although the plan clearly calls for substantial federal investment in transportation, employment, housing and various other forms of community support, Mayor Young's main request at this meeting will be for you to ask the Cabinet Secretaries to designate appropriate persons in their agencies to work with the City of Detroit. All of the Cabinet members are, of course, happy to do so. Each one of the Cabinet members will be prepared to comment appropriately on the aspects of the program which affect their Department. (For example, Bob Hall will announce tomorrow at the meeting an EDA grant of \$2-million for the City of Detroit.)

You might touch on the following points:

(1) Express appreciation to the group for coming to Washington to tell you of their extraordinary efforts and commend them for setting an outstanding example of public/private partnership in urban redevelopment and revitalization;

(2) As you said in your comments to the U. S. Conference of Mayors last Monday, cities, such as Detroit, are always on the cutting edge of the nation's most perplexing problems. It is the Mayors and other leaders of our cities who must confront our most complex domestic issues first - always long before they can be addressed through the legislative process. One of the things you most need and appreciate from them is keeping you aware of what those problems are and how they can be dealt with.

(3) Express your particular pleasure with the large role being played by the private sector in the MOVE DETROIT FORWARD program. State your belief that we simply cannot rely on the government to be the sole source of all our answers and aid. If we are to deal effectively with the intractable problems that confront us, we must do so through creative coalitions such as the one they embody.

(4) You might say that you know each of the Cabinet Secretaries will be happy to assign appropriate people to work with them in their efforts. You might also say that Jack Watson and his staff are eager to assist in every way possible. You might also say that you will follow their progress with interest.

11:20 You depart.

11:20- More detailed presentations by other members of the
11:40 Delegation on various components of the program
 (transportation, employment and youth, housing,
 community support, etc.)

 (The Vice President drops by between 11:30 and 11:45.)

11:40- Mayor Young asks for discussion by Cabinet Secretaries
noon

Attachments

ATTENDEES

Moving Detroit Forward
June 23, 1977

REVEREND ROY ALLEN
Pastor, Chapel Hill Missionary Baptist Church

DANIEL S. COOPER
State Senator, Michigan State Senate

BOBBY D. CRIM
State Speaker, House of Representatives

JAMES L. DAMMAN
Lieutenant Governor of Michigan

CHARLES DIGGS
U.S. Congressman

ROBERT E. DEWAR
Chairman of Board, K-Mart Corporation

LAWRENCE DOSS
President, New Detroit, Inc.

DIANE J. EDGECOMB
Executive Vice President, Central Business District Association

WILLIAM FAUST
State Senate Majority Leader

CHARLES FISHER, III
President, National Bank of Detroit

VICTOR L. FRILEY
Security guard

HANS GEHRKE, JR.
Chairman of Board, First Federal Savings and Loan

ROBERT P. GRIFFIN
U.S. Senator

DWIGHT HAVENS
President, Greater Detroit Chamber of Commerce

ROBERT HOLMES, SR.
President, Michigan Teamsters Joint Council #43

NICHOLAS HOOD
President Pro-Tem, Detroit City Council

JAMES HUDSON
Washington Representative for City of Detroit

JOSEPH L. HUDSON, JR.
Chairman of Board, J.L. Hudson Company

MONSIGNOR CLEMENT KERN
Pastor, Holy Trinity Church

CARL LEVIN
President, Detroit City Council

RAY W. MACDONALD
Chairman of Board, Burroughs Corporation

BENSON MANLOVE
Former President, Booker T. Washington Businessmen's Association

FREDERICK MATTHAEI, JR.
Chairman of Board, New Detroit, Inc.

ROBERT MCCABE
President, Detroit Renaissance, Inc.

THOMAS A. MURPHY
Chairman of Board, General Motors Corporation

DAVID B. NELSON
Staff to Mayor Young

JOHN S. PINGEL
Chairman of Board, Greater Detroit Chamber of Commerce

ROBERT L. PISOR
Staff to Mayor Young

JOHN RICCARDO
Chairman of Board, Chrysler Corporation

RONALD RIEGLE
U.S. Senator

JAMES M. ROCHE
Co-Chairman, Economic Growth Council of Detroit
(former Chairman of Board, General Motors Corporation)

ARTHUR R. SEDER, JR.
Chairman of Board, American Natural Gas Company

RICHARD SIMMONS, JR.
Deputy Mayor of Detroit

ROBERT SPENCER
President, Economic Growth Council of Detroit

MARC STEPP
Vice President of United Auto Workers

A. ALFRED TAUBMAN
Chairman of Board, The Taubman Company

LYNN A. TOWNSEND
Co-Chairman, Economic Growth Council of Detroit
(former Chairman of Board, Chrysler)

THOMAS TURNER
President, Metropolitan Detroit AFL-CIO

GLADYS WOODARD
Executive Director, Delray United Action Council

COLEMAN A. YOUNG
Mayor of Detroit

The Administration will be represented by:

Vice President Mondale
Secretary Ray Marshall
Secretary Patricia Harris
Secretary Brock Adams
Robert Carswell, Deputy Secretary of Treasury
Robert Hall, Assistant Secretary for Economic Development,
Department of Commerce

Stu Eizenstat
Jack Watson

THE PRESIDENT HAS SEEN.

MOVING DETROIT FORWARD...

A Plan For Urban Economic Revitalization

EXECUTIVE OVERVIEW

Report to Central Files

Detroit, Michigan

June, 1977

COLEMAN A. YOUNG, MAYOR

THE WHITE HOUSE
WASHINGTON

June 23, 1977

Charlie Schultze -

The attached was returned in
the President's outbox. It is
forwarded to you for appropriate
handling.

Rick Hutcheson

Re: "Corporate Profits Taxes as a
Percent of GNP

THE WHITE HOUSE
WASHINGTON

ACTION
FYI

<input type="checkbox"/>	MONDALE
<input type="checkbox"/>	COSTANZA
<input type="checkbox"/>	EIZENSTAT
<input type="checkbox"/>	JORDAN
<input type="checkbox"/>	LIPSHUTZ
<input type="checkbox"/>	MOORE
<input type="checkbox"/>	POWELL
<input type="checkbox"/>	WATSON

<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

<input type="checkbox"/>	FOR STAFFING
<input type="checkbox"/>	FOR INFORMATION
<input checked="" type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
<input type="checkbox"/>	HARDEN
<input type="checkbox"/>	HOYT
<input type="checkbox"/>	HUTCHESON
<input type="checkbox"/>	JAGODA
<input type="checkbox"/>	KING

<input type="checkbox"/>	KRAFT
<input type="checkbox"/>	LANCE
<input type="checkbox"/>	LINDER
<input type="checkbox"/>	MITCHELL
<input type="checkbox"/>	POSTON
<input type="checkbox"/>	PRESS
<input type="checkbox"/>	B. RAINWATER
<input type="checkbox"/>	SCHLESINGER
<input type="checkbox"/>	SCHNEIDERS
<input checked="" type="checkbox"/>	SCHULTZE
<input type="checkbox"/>	SIEGEL
<input type="checkbox"/>	SMITH
<input type="checkbox"/>	STRAUSS
<input type="checkbox"/>	WELLS
<input type="checkbox"/>	VOORDE

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

THE PRESIDENT HAS SEEN.

June 22, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*

SUBJECT: Corporate Profits Taxes as a
Percent of GNP

Charlie:
Were the same
"discounts" and
"adjustments" applied
to the figures
used on personal
taxes ?
income *JK*

An earlier memorandum I sent to you showed that corporate profits taxes have been generally declining as a proportion of GNP over the past 20 years. This memo indicates why that has been happening.

The ratio of corporate profits taxes to GNP is itself the product of three ratios:

- . the proportion of GNP produced by corporations;
- . the ratio of corporate profits to corporate GNP; and
- . the effective rate of taxes on corporate profits.

The first column in Table 1 shows the share of corporate profits in GNP for the postwar period; the next three columns show the three underlying ratios which produce that share. The profit figures have been adjusted to equal "economic" profits. (During periods of inflation, reported profits are overstated because of paper inventory profits and failure of depreciation to reflect replacement costs; liberalization of tax laws relating to depreciation works the other way.)

As you can see from Table 1, the effective tax rate on adjusted profits has not declined over the years, although it has moved up and down (column 2). The falling share of corporate taxes in GNP results solely from the declining share of profits in GNP (column 3), which more than offsets the rise in the share of GNP produced by corporations (column 4).

About half of the decline in corporate profit margins is due to increased interest payments by corporations. Part of the increase in interest payments stems from higher interest rates, but a substantial part reflects the choice of corporations to use debt financing, rather than equity funds, to finance capital outlays. Because of this, a larger part of the income to capital is now taking the form of interest income, and is being taxed by the personal income tax rather than the corporate profits tax.

Actual vs. Adjusted Profits

As I noted above, the effective tax rate on adjusted corporate profits has not declined. But actually reported profits have been higher than adjusted profits during the inflation period of recent years. Consequently, the effective tax rate on actual profits has fallen. (See Table 2.)

In summary

- . the effective tax rate on economic profits has not fallen; the smaller share of corporate taxes in GNP arises from a declining corporate profits share in GNP
- . the effective tax rate on actually reported profits has fallen, but reported profits overstate true economic profits in an inflation.

Attachments

Table 1

Corporate Profits, Corporate Taxes, and GNP
(percent)

	(1)	(2)	(3)	(4)
	$\frac{\text{Taxes}}{\text{GNP}}$	$= \frac{\text{Taxes}}{\text{Adjusted Profits}}$	$\times \frac{\text{Adjusted Profits}}{\text{Corporate GNP}}$	$\times \frac{\text{Corporate GNP}}{\text{Total GNP}}$
1955-59	4.7	47.8	17.2	57.0
1960-64	4.1	42.6	16.6	58.3
1965-69	4.1	40.1	16.8	60.5
1970-74	3.2	45.1	11.7	60.7
1975	2.8	46.5	10.0	60.5
1976	3.3	47.2	11.4	61.0

Note: Column 2 is the "effective tax rate."

Table 2

Reported vs. Adjusted Profits,
and Effective Tax Rates

	Ratio of Reported to Adjusted <u>Profits</u>	Effective Tax Rate on Actual <u>Profits</u>
1955-59	91.0	43.5
1960-64	99.4	42.7
1965-69	98.8	40.4
1970-74	115.4	39.0
1975	125.0	37.2
1976	125.4	37.6

THE WHITE HOUSE
WASHINGTON

June 22, 1977

TO: THE VICE PRESIDENT
MIDGE COSTANZA
STU EIZENSTAT
BOB LIPSHUTZ
JACK WATSON

FROM: RICK HUTCHESON

The President has the original
memo. A copy is attached for
your information.

Re: Corporate Profits Taxes as a
Percent of GNP

THE WHITE HOUSE
WASHINGTON

June 23, 1977

Frank Moore
Bob Thompson

The attached was returned in
the President's outbox. It is
forwarded to you for your
information.

Rick Hutcheson

Re: Waterway User Fees

THE WHITE HOUSE
WASHINGTON

cc Bob Thompson

ACTION
FYI

	MONDALE
	COSTANZA
	EIZENSTAT
	JORDAN
	LIPSHUTZ
	MOORE
	POWELL
	WATSON

	ENROLLED BILL
	AGENCY REPORT
	CAB DECISION
	EXECUTIVE ORDER

Comments due to
Carp/Huron within
48 hours; due to
Staff Secretary
next day

	FOR STAFFING
	FOR INFORMATION
X	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

	ARAGON
	BOURNE
	BRZEZINSKI
	BUTLER
	CARP
	H. CARTER
	CLOUGH
	FALLOWS
	FIRST LADY
	GAMMILL
	HARDEN
	HOYT
	HUTCHESON
	JAGODA
	KING

	KRAFT
	LANCE
	LINDER
	MITCHELL
	POSTON
	PRESS
	B. RAINWATER
	SCHLESINGER
	SCHNEIDERS
	SCHULTZE
	SIEGEL
	SMITH
	STRAUSS
	WELLS
	VOORDE

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 22, 1977

*Good work
J*

MEMORANDUM FOR THE PRESIDENT

FROM: FRANK MOORE/BOB THOMSON ✓

RE: WATERWAY USER FEES

On Wednesday, the Senate for the first time in history voted to impose a general waterway user charge on shallow-draft river vessels. The vote on the Domenici amendment authorizing imposition of fees was 72 to 20, but key votes on two Stevenson-Long substitute amendments to provide a new Lock and Dam 26 without user charges were much closer.

Both of the amendments were virtually the same, in that immediate construction of a new lock and dam would have been authorized, with user fees contingent on a future Senate vote. The first was defeated 51 to 44, the second 39-52.

The second amendment was particularly interesting since Senator Byrd had intervened with certain procedural safeguards to assure that user fees would be considered in a timely fashion in a subsequent vote. We received feelers from Byrd to back off on our veto threat on this amendment, but we stood fast. Our margin of victory on the vote was, frankly, surprising to everyone, including us, since Senator Byrd had thrown his support to the other side.

Senators that were helpful included Culver, Clark, Proxmire and Nelson. Each of these stood with us despite tremendous farm pressure against user fees. Domenici was superb as floor manager. Senators Humphrey and Anderson ended up voting for the Stevenson substitutes even though they co-sponsored Domenici.

**Electrostatic Copy, Made
for Preservation Purposes**

8:00 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 22, 1977

BREAKFAST WITH SENATORS

Thursday, June 23, 1977

8:00 a.m. (45 minutes)

Roosevelt Room

Electrostatic Copy Made
for Preservation Purposes

From: Frank Moore *f. m.*

I. PURPOSE

To meet with both Democratic and Republican Senators.

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: This is the second in a series of meetings with Senators. As in the first such meeting, this group represents a cross section of the Senate--a member of the leadership; junior and senior Senators; committee chairmen; liberals, moderates, conservatives.

B. Participants: The President; Vice President; Senators James Allen, Wendell Anderson, Dale Bumpers, Howard Cannon, Alan Cranston, Floyd Haskell, Edward Kennedy, Patrick Leahy, Gaylord Nelson, Herman Talmadge; Frank Moore, Dan Tate, Bob Thomson, Bill Smith.

C. Press Plan: White House Photo.

III. TALKING POINTS

A. Again, these meetings are designed to encourage candid, open-ended conversation between you and the Senators.

B. Attached is a biographical sketch on each of the Senators who will be attending this breakfast.

X

JAMES B. ALLEN (Jim) (D-Alabama); 2nd term (1980); born December 12, 1912, Gadsden, Alabama; married (Maryon); University of Alabama Law School; Alabama House of Representatives, 1938-42; U.S. Navy, 1943-46; Alabama Senate, 1946-50; Lt. Governor, 1951-55, 1963-67; elected to U.S. Senate, 1968.

Chairman, Subcommittee on Agricultural Credit and Rural Electrification (Committee on Agriculture, Nutrition and Forestry); Chairman, Subcommittee on Separation of Powers (Committee on the Judiciary).

WENDELL R. ANDERSON (D-Minnesota); 1st term (1978); born February 1, 1933, St. Paul, Minnesota; married (Mary); three children; J.D., University of Minnesota Law School, 1960; U.S. Army, 1959-63; Minnesota House of Representatives, 1959-63; Minnesota Senate, 1963-71; Governor, 1971-76; appointed to U.S. Senate, 1976.

DALE BUMPERS (D-Arkansas); 1st term (1980); born August 12, 1925, Charleston, Arkansas; Methodist; married (Betty); three children; LL.B., Northwestern University, 1951; U.S. Marine Corps, 1943-46; Governor, 1970-74; elected to U.S. Senate, 1975.

HOWARD W. CANNON (D-Nevada); 4th term (1982); born January 26, 1912, St. George, Utah; married (Dorothy); two children; LL.B., University of Arizona, 1937; Army Air Corps, WW II; Utah Senate, 1939; elected to U.S. Senate, 1958.

Chairman, Committee on Rules and Administration; Chairman, Subcommittee on Aviation (Committee on Commerce, Science and Transportation); Chairman, Subcommittee on Tactical Air (Committee on Armed Services).

Senator Cannon could become chairman of either the Commerce or Armed Services Committees in the near future. He is probably the most overlooked and neglected Senator by the press and the public.

ALAN CRANSTON (D-California); 2nd term (1980); born June 19, 1914, Palo Alto, California; two children; B.A., Stanford University, 1936; chief, foreign language division, Office of War Information, 1940-44; U.S. Army, 1944-45; author, Killing of Peace, 1945; first Democratic controller in 72 years, 1958-66; elected to U.S. Senate, 1968; majority whip, 1977.

Chairman, Subcommittee on Production and Stabilization (Committee on Banking, Housing and Urban Affairs); Chairman, Subcommittee on Child and Human Development (Committee on Human Resources); Chairman, Committee on Veterans' Affairs; Chairman, Subcommittee on Health and Readjustment (Committee on Veterans' Affairs).

FLOYD K. HASKELL (D-Colorado); 1st term (1978); born February 7, 1916, Morristown, New Jersey; three children; LL.B., Harvard Law School, 1941; U.S. Army, 1941-45; Colorado House of Representatives, 1965-69, assistant majority leader, 1967-69; elected to U.S. Senate, 1972.

Chairman, Subcommittee on Energy Production and Supply (Committee on Energy and Natural Resources); Chairman, Subcommittee on Administration of the Internal Revenue Code (Committee on Finance); Chairman, Subcommittee on Financing, Investment and Taxation (Select Committee on Small Business).

Senator Haskell will have a tough reelection campaign, probably against Rep. Bill Armstrong who will have generous financial support from Joseph Coors and right wing groups.

EDWARD M. KENNEDY (D-Massachusetts); 3rd term (1982); born February 22, 1932, Boston, Massachusetts; Catholic; married (Joan); three children; International Law School, The Hague, Holland, 1958; LL.B., University of Virginia Law School, 1959; U.S. Army, 1951-53; trustee, Children's Hospital Medical Center in Boston; elected to U.S. Senate, 1962; Senate Democratic Whip, 1969-71.

Chairman, Subcommittee on Health and Scientific Research (Committee on Human Resources); Chairman, Subcommittee on Antitrust and Monopoly (Committee on the Judiciary); Chairman, Subcommittee on Energy (Joint Economic Committee).

PATRICK J. LEAHY (D-Vermont); 1st term (1980); born March 31, 1940, Montpelier, Vermont; married (Marcelle); three children; J.D., Georgetown University, 1964; elected to U.S. Senate, 1974; first Democrat in Vermont to be elected to U.S.

Chairman, Subcommittee on Agricultural Research and General Legislation (Committee on Agriculture, Nutrition and Forestry); Chairman, Subcommittee on District of Columbia (Committee on Appropriations).

GAYLORD NELSON (D-Wisconsin); 3rd term (1980); born June 4, 1916, Clear Lake, Wisconsin; married (Carrie); three children; LL.B., University of Wisconsin, 1942; U.S. Army, WW II; Wisconsin Legislature, 1949-58; Governor, 1959-63; elected to U.S. Senate, 1962.

Chairman, Subcommittee on Social Security (Committee on Finance); Chairman, Subcommittee on Employment, Poverty, and Migratory Labor (Committee on Human Resources); Chairman, Select Committee on Small Business; Chairman, Subcommittee on Monopoly and Anticompetitive Activities (Select Committee on Small Business).

HERMAN E. TALMADGE (D-Georgia); 4th term (1980); born August 9, 1913, McRae, Georgia; Baptist; two children; LL.B., University of Georgia, 1936; U.S. Navy, 1941-45; Governor, 1947-55; elected to U.S. Senate, 1956.

Chairman, Committee on Agriculture, Nutrition, and Forestry; Chairman, Subcommittee on Health (Committee on Finance); Chairman, Subcommittee on Compensation and Pension (Committee on Veterans' Affairs).

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

June 23, 1977

MEETING WITH REPRESENTATIVE KRUEGER

Thursday, June 23, 1977

The Oval Office

3:30 p.m. (15 minutes)

I. PURPOSE

From: Frank Moore J M,

To meet with Rep. Krueger to discuss the deregulation of natural gas.

II. BACKGROUND, PARTICIPANTS AND PRESS PLAN

Background: Rep. Krueger wrote to the President asking to discuss the energy plan and particularly the "lessening rather than enlarging of federal controls." He would also like to discuss ways to assist the Administration in strengthening its position with Mexican-Americans. Rep. Krueger was first elected in 1974 and received 71% of the vote in 1976. He is from the 21st district of Texas is #16 on Interstate and Foreign Commerce (which includes the Energy and Power Subcommittee), #14 on Science and Technology. The district is a vast near-desert given over to the raising of cattle and cotton, the pumping of oil and the extraction of natural gas. The largest city is San Angelo, but he also shares San Antonio, which has a large Mexican-American population, with Reps. Gonzalez and Kazen. His amendment for the deregulation of new natural gas also contains provisions for other, older vintages. The measure will come before the Interstate and Foreign Commerce Committee next week, probably Tuesday. It is very close; in the Subcommittee, Krueger's amendment passed 12 to 10.

Participants: The President, Rep. Krueger, Jim Free.

Press Plan: White House photographer only.

⁵
GOALS = ETHICS. D. E.

STIMULUS - REORG - ENERGY

SECRECY

STRONG CITIES HOUSE - EXPORT -
CRIME

SOCIAL SECURITY

WELFARE

TAX

NUCLEAR PROLIF

ARMS SALES

HUMAN RIGHTS

SALT - CBT - INDIAN OCEAN

UNEMPLOYMENT

MID EAST

NOT EASY

NEED YOUR HELP

NY Demo Fundraiser

Alice Mason

6-23-77

QUEENS - ANDY - PLAYBOY - PRES
LUST 2 OUT ~~RATON~~
DISCRIMINATION

Crowd - White House STAFF

HUMAN FLY - \$250,000. TAX AUDIT

" " COMPROMISE BEAME → \$110

\$600 tooth PASTE

ARTHUR KRIM - STEVE ROSS -
MARY LASKER CHALLENGING
POLITICIANS

CAREY - BAL BUDGET. TAX ↓ 50yr

BEAME - NY 67% Q 33% F

MONDALE - CONCORDE - PARKING -

N IRELAND - ABORTION - GAY -

\$50 REBATE TOM SEAUER

HHH - ADVISOR - E BILLY

DEMO / REPUB

PM - AGAINST PEOPLE WHO

PUSH OTHER P. AROUND

CONGRESS - NOT PARTISANSHIP,

BUT PARTNERSHIP

HARD ?'s → OVAL OFFICE

→ Ice cream
C130

Breakfast &
Senators —
6-23-77

Drezher mtg

> Marshall Shulman

Moore/Tate

Budget balance

Num Rts =

Antic dereg.

OMB - (Ken) internet prob

Tax

welfare

- Mid East

> O.I. - \$3/bbl tax

Say more on energy

> Help Democrats early

Wheat - Colorado

Search for peace

Clinch River

Dereg stat gas

Strip mining - Surface Rts

THE PRESIDENT HAS SEEN.
THE WHITE HOUSE
WASHINGTON
June 17, 1977

S

MEMORANDUM FOR THE PRESIDENT

FROM: JIM FALLOWS *JL*

SUBJECT: Democratic National Committee Dinner *6/23/77*

Here is Jerry Doolittle's draft of Thursday night's speech to the DNC. He has also attached some possible jokes.

**Electrostatic Copy Made
for Preservation Purposes**

DEMOCRATIC NATIONAL COMMITTEE DINNER, NEW YORK CITY
June 23, 1977

Good evening.

I'm always glad to come to New York. No matter how many times I fly in, I always look forward to the first sight of Manhattan from the air. The city seems like too awesome a monument to have been created by such small and imperfect beings as ourselves. It is a useful reminder of what we are capable of, when we get together and work toward a goal.

So is this dinner.

Our monument, the monument you all helped to build, is a Democratic Congress and Administration.

Foreigners are often confused by our two-party system. They see representatives of almost our whole political spectrum, left to right, in both parties--and they wonder how there can be any difference.

And it's certainly true that both major parties are, in a sense, coalition parties--but it's certainly not true that there's no difference.

Many years ago one of your New York newspapers, PM, had a motto that could serve as very well as a short statement of Democratic Party principles.

PM's one-line editorial policy was, "We are against people who push other people around."

We, as Democrats, are against people who want our tax structures to lie lightly on the rich and heavily on the rest of us.

We are against people who are content to leave the energy policy of this country to the mercies of those whose main concern is the maximization of profits.

We are against those who would pollute our air and poison our water and leave open wounds on our land in the

narrow pursuit of their own interests.

We are against those whose reaction to violations of human rights here and abroad is a wordly and supercilious shrug of the shoulders.

We are against those who would raise barriers of secrecy and distrust between the American people and their government.

We are against those who think that unemployment is a necessary condition of business prosperity, or who cynically hold that inflation can only be fought with joblessness.

I won't go on, because you all know as well as I do those beliefs which define us as Democrats.

And I won't presume to describe those beliefs which define Republicans. Fortunately for us, they do that job very adequately themselves every election year.

As a result, our party, for the first time in eight years, controls both the Congress and the White House.

At last we have a chance for government, not by partisanship, but by partnership.

We have all waited and worked a long time for this chance.

Now that we have it, we must not miss our opportunity to restore honest and compassionate government to America, to put our people back to work, to balance the budget, to hold down the arms race, to support democracy throughout the world, to bring health care to all our people and welfare

to those who must have it, to conserve our resources in the face of the coming energy crisis.

But to judge by the papers, it sometimes looks as if we are missing these opportunities--as if the White House and the Congress were locked in a futile, scoreless tie.

But we shouldn't treat the political news as if it were the sports page. Often we pay too much attention to the defeats or victories of the day, and not enough to the slow evolving of the whole season.

Remember that the questions that come to the President for decision are not the easy ones. The easy ones decide themselves at some other level. Only the hard questions are left--the ones with not just two sides but a dozen, and something to be said for each of them.

When we pick one legislative approach out of all these close calls and Congress modifies it, or sets it aside in favor of another, we have not necessarily "lost".

As long as Congress shares our goal, progress toward the goal continues.

And very often Congress has shared not only our goal, but our idea of the best way to reach it as well. I met with Congressional leaders before taking office, and outlined five major goals I hoped to achieve as quickly as possible.

The first four were legislation setting up a Department of Energy, the economic stimulus package, re-organization authority, and strong laws on ethics. Already Congress has taken what I consider to be very satisfactory action on all four.

The fifth was the energy program. I understood from the first that passage of a sound energy program would be--and should be--a protracted process. These are matters of the greatest importance, which demand the most careful scrutiny.

Congress is giving the program that scrutiny right now. The Speaker of the House has set rigid and demanding deadlines for consideration of the energy measures, and the committee chairmen are meeting those deadlines. The result has been long hours on Capitol Hill, and meetings which often run late into the evenings. I very much appreciate this sense of urgency, and show of responsibility.

We have come a long way together on the energy program, from the paralysis of the past.

Proposals to reform utility rates are not only intact, but may well be strengthened by the House. Its members share my concern about rate structures that penalize thrift and reward gluttony. The House of Representatives has also moved to strengthen my proposals for solar tax credits and home insulation. The Ways and Means Committee agrees with me that we should discourage energy consumption by imposing a new tax on crude oil.

It's true that in some instances I have been disappointed in actions taken by Congress. It may even be, in a few very isolated instances, that Congress has been disappointed in actions taken by me.

But these are individual ball games that go one way or another, during a long season. The important question isn't which team is suffering a temporary slump or celebrating a winning streak.

This can't be the question at all, because we are both on the same team.

We share the responsibility -- and the desire -- to save our nation from the worst effects of the energy shortage which is coming towards us just as surely as tomorrow is.

I know how hard a thing this is politically -- to take inconvenient and unpleasant action in advance against a catastrophe whose outlines are still dim to many people.

I was discouraged to learn, in a recent poll, that 48 per cent of the American people still hold the false belief that the United States imports no oil.

Part of the fault is mine. President Theodore Roosevelt called the Presidency -- "a bully pulpit" -- and perhaps I have not used it as well as I should have to alert our people to the problems ahead.

Perhaps I was too timid in my energy proposals.

It may have been that bolder and even harsher proposals would have jolted the American people into understanding just how grave a problem faces us.

It is not too late.

The current process of give and take with Congress offers a chance not only to weaken proposals -- but also to strengthen them. Some of my proposals have in fact been strengthened, as I pointed out earlier. I would certainly not object to further strengthening, so long as it does not unbalance the basic fairness of the plan by placing lopsided burdens on particular groups or regions.

The Congressional Budget Office and the General Accounting Office have also recommended that any changes in the energy plan be in the direction of stiffening the proposals rather than weakening them.

Certainly, if we do not take relatively tolerable steps today, we will be forced to take much more painful ones in the future.

There is no other choice.

And so I would hope that Congress will not merely indicate where it thinks my proposals are in error, but will also suggest suitable improvements on those proposals.

I am not wedded to the precise means we have proposed in the energy package, but I am absolutely determined to reach the larger goal I know we share -- a fair, balanced and effective energy program for our country.

To this end, I will propose new or modified measures to replace any part of the plan that might be considered unsuitable by Congress. As I have said, I hope Congress will do the same.

We both have our assigned roles, under the American system of government. It is normal and it is proper for those roles to bring us into occasional disagreement.

My job is to try to reconcile the needs and interests of all 50 states and all 435 Congressional districts so as to come up with an acceptable synthesis.

When I misjudge, the Congress will move to correct me. When Congress misjudges, I must take whatever seems to be the most appropriate action.

Perfect truth will seldom come out of the process -- but progress already has.

My experience with the Democratic Congress has been, on balance, a heartening one. I have developed close and warm relationships with the leaders, and we have accomplished a great deal together.

Sometimes there have been creaks of protest and grumblings on both sides -- but this is just the normal noise of the machinery of government starting up again after a period of inactivity.

Part of the noise is because lobbyists for special interest groups are putting more pressure on Congress these days. When the White House is in the hands of a political party devoted to stalling social progress -- I hesitate to mention any particular political party by name -- then the lobbyists have a relatively easy time of it. They don't need to work so hard to block progressive legislation on the Hill, because they can count on the President to shoot it down anyway.

Now the situation is different. Now the special interests must double and redouble their efforts on Capitol Hill, because their last chance to kill progressive measures lies with Congress.

This has led to lobbying which has unpleasantly surprised me by its intensity.

But I have been gratified by the many instances in which Congress has stood firm against these lobbying efforts, and has shared my view of what is right and needful for the country at large.

I have spoken already of some -- by no means all -- of the progress we have made together. That progress is all the more encouraging in view of the heavy burdens I have laid upon the Congress in these first few months of my administration. The response of the members and of their leaders to this workload has been magnificent.

Major portions of my legislative program have been passed already, and the rest is well underway.

It would be unnatural -- and even undesirable -- if we had had no problems between us at all. But those problems have come, because, as members of the same party,

we expect so much of each other. Perhaps we expect too much. I am sure this is at the heart of some of the disappointments we sometimes both feel.

I am just as sure that those disappointments are only temporary. We are all Democrats together -- at long last. We share the same high hopes and aspirations for our country. And we share our disappointments when these dreams are imperfectly realized.

But these disappointments will not keep us from pursuing our common goals.

Nor will the knowledge that today's goals, once reached, will simply be replaced by tomorrow's even more ambitious goals.

That is how progress is made, and that is the endless job which we must undertake together.

ADDENDUM TO DNC SPEECH

Here are some suggested jokes, if you should want any to use before the speech:

1. Originally this dinner was scheduled for Queens, but the Secret Service advised against it. People were already stirred up over the Concorde, and then of course Andy Young ...
2. We had a little ceremony in London where I planted what later turned out to have been a dead tree. In a way, it made me think of the \$50 rebate.
3. Andy and I are very close, but I didn't realize he had Presidential ambitions till I saw he had given an interview to Playboy, too.
4. A big part of politics is knowing when to compromise. I think of Mayor Beame, when he sued the human fly for \$250,000 and then had to settle for a dollar ten. Once or twice these past weeks and months, I've been made to understand how Abe must have felt.
5. We were down a submarine for three hours. It took so long because Admiral Rickover wouldn't let me up till I promised him a new aircraft carrier.

6. There are no real problems with my tax audit. The IRS was just a little curious about my \$600 deduction for toothpaste.

7. We've made a very encouraging start on establishing closer ties with Congress. Frank Moore tells me they've already agreed to give us full information on our MIAs.

THE WHITE HOUSE
WASHINGTON

June 23, 1977

TO: THE VICE PRESIDENT
HAMILTON JORDAN
JODY POWELL
JACK WATSON
CHARLES SCHULTZE

RE: ~~(CONFIDENTIAL)~~ TAX REFORM

The President has the original
memo. Attached is a copy for
your information.

Rick Hutcheson

"DETERMINED TO BE AN ADMINISTRATIVE MARKING
CANCELLED PER E.O. 12958, SEC. 1.3 AND
ARCHIVIST'S MEMO OF MARCH 16, 1983"

THE WHITE HOUSE
WASHINGTON

for info
confidential

ACTION	FYI
<input type="checkbox"/>	<input checked="" type="checkbox"/>
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<input type="checkbox"/>	ENROLLED BILL
<input type="checkbox"/>	AGENCY REPORT
<input type="checkbox"/>	CAB DECISION
<input type="checkbox"/>	EXECUTIVE ORDER
	Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

<input type="checkbox"/>	FOR STAFFING
<input checked="" type="checkbox"/>	FOR INFORMATION
<input type="checkbox"/>	FROM PRESIDENT'S OUTBOX
<input type="checkbox"/>	LOG IN/TO PRESIDENT TODAY
<input type="checkbox"/>	IMMEDIATE TURNAROUND

<input type="checkbox"/>	ARAGON
<input type="checkbox"/>	BOURNE
<input type="checkbox"/>	BRZEZINSKI
<input type="checkbox"/>	BUTLER
<input type="checkbox"/>	CARP
<input type="checkbox"/>	H. CARTER
<input type="checkbox"/>	CLOUGH
<input type="checkbox"/>	FALLOWS
<input type="checkbox"/>	FIRST LADY
<input type="checkbox"/>	GAMMILL
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<input type="checkbox"/>	JAGODA
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THE WHITE HOUSE

WASHINGTON

June 22, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG

SUBJECT:

Tax Reform

Attached are two memoranda from Joe Pechman and one from us on tax reform and an article from Sunday's Washington Star carrying an interview with Secretary Blumenthal.

1. (a) In the first memo (Tab A), Pechman sets out his options for tax reform, including a reform package which he would recommend. You should know that Pechman believes that the current Treasury program falls short on grounds of progressivity, comprehensiveness, and simplicity for the average taxpayer -- Pechman just feels that it is not a very ambitious program.

(b) In his memo, Pechman suggests a very interesting approach for dealing with the itemized personal deductions. Instead of fighting separate battles on each deduction, Pechman recommends that we adopt an alternate, lower rate schedule for those who choose not to itemize. In effect, this would establish a floor for itemized deductions -- if the taxpayer's itemized deductions are less than the floor, it would be more profitable for him to just take the standard deduction and the lower rate schedule.

A similar (but perhaps politically more difficult) approach would be to directly establish a floor on itemized deductions, e.g., deductions could be itemized only to the extent that they exceeded 10% of income. Either approach would cause millions of taxpayers to give up itemizing (accelerating the trend we began this year by increasing the standard deduction), thereby achieving a dramatic step forward in simplification. These approaches are not perfect -- they will be criticized (as could the tax bill we just passed) as attacks on the real value of itemized deductions -- but we think they should be developed and carefully considered by Treasury.

2. In his second memo (Tab B), Pechman recommends that integration not be included in the tax reform package, arguing that it reduces progressivity, gives up too much revenue, and is not a very effective incentive for capital formation.
3. Our memorandum (Tab C) expresses our concern that the current Treasury program simply is not responsive to your campaign theme, and the perception of the average taxpayer, that the tax system is a disgrace. We point out some serious progressivity and distributional problems in the current program and conclude that Treasury does not appear to be producing a package which you can sell to the American people as a substantial improvement for the bulk of the low and middle income taxpayers. At the end of the memo, we request your guidance (to relay to Treasury) on these issues.
4. We hope you will instruct officials concerned with the tax reform effort and in the Administration generally to refrain (as you have) from speculation on the amount of net tax cuts (overall revenue loss) which our program will provide and the rate reductions we will propose. (Secretary Blumenthal was quoted over the weekend (Tab D) as saying the Administration wants to reduce top tax rates to 50%.) Continued discussion of this issue will divert the attention of the public and Congress from the difficult issue of tax reform to the easy one of tax cuts and rate reductions. It will dilute the effect of any net tax cuts we do announce and make our effort to get comprehensive reform harder.

Attachments:

- A -- Pechman memorandum on tax reform options
- B -- Pechman memorandum on integration
- C -- Our memorandum on the overall Treasury program
- D -- Washington Star article carrying interview with Secretary Blumenthal

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Tax Reform Options

The major objectives of tax reform should be to improve the equity of the tax system (both vertical and horizontal) and make it simple to understand. Both objectives can be achieved by moving toward a comprehensive tax base which would eliminate the major preferences, curb business expense account abuses, allow only essential personal deductions, consolidate the four tax rate schedules, and reduce the marginal income tax rates substantially in all brackets. The rates should be adjusted to make the income tax more progressive than it is today. Business taxes should also be reduced, but the form and the amount of the reductions should be as consistent as possible with the equity and simplification objectives and should also maximize the stimulus to business capital formation.

Building Blocks of Tax Reform

The building blocks for the construction of any tax reform package are as follows:

1. Capital gains. The capital gains provisions are complicated, distort economic behavior, and favor the wealthy taxpayer. Equity, simplicity, and tax neutrality would all be served if capital gains were treated as other income. This change alone would permit a substantial reduction in the higher bracket individual income tax rates.

2. Capital gains transferred by gift or at death. Today, such gains are not taxed until the assets are sold by the recipients of the gifts or bequest. This is inequitable because it benefits families who can hold on to their assets for long periods, and penalizes those who — for business or other reasons — must sell their assets. It also encourages families to hold on to their wealth without turning it over for generations to avoid paying the capital gains tax. This lock-in

effect would be aggravated if capital gains were treated as other income. Lawyers complain that the present provisions raise difficult tracing problems. For all these reasons, capital gains should be taxed when assets are transferred to others as well as when they are sold.

3. Business tax preferences. While some progress has been made in recent years to eliminate tax preferences, a number of costly preferences have remained or have recently been introduced. Elimination of these preferences might be accompanied by a reduction in the corporation income tax rate. The major business tax preferences are: (a) percentage depletion for small producers of oil and gas and for all minerals producers; (b) deferral of tax through the Domestic International Sales Corporation (DISC); (c) deferral of tax on income of foreign corporations controlled by U.S. shareholders; and (d) tax shelters (which remain despite the revisions in the 1976 Act).

4. Business expense accounts. The abuse of business expense accounts should be terminated. Consideration should be given to putting per diem and per meal limits on business expenses; denial of deductions for club dues, admissions to sports and theatrical events, and other lavish entertainment expenses; and a limit on deductions for air travel to coach fare.

5. Tax-exempt interest. The correct method of eliminating this inequity would be to tax interest in all future municipal issues, and to use the revenue to increase aid to states and local governments. However, the opposition would be fierce. As an alternative, the states and local governments should be given the option to issue taxable issues, with the interest to be subsidized by the federal government to the extent of 40 percent.

6. Other exclusions for property income. Aside from tax-exempt interest, property income receives preferential treatment in two respects: first, the interest earned on life insurance savings of individuals is not taxed; and second, the first \$100 of dividends (\$200 on joint returns) is excluded from income. At one time, it was felt that it would be difficult to tax the interest on life insurance savings, but the necessary accounting can be done for the individual on a modern computer. The dividend exclusion is a vestige of the

1954 Act (which gave dividend relief to individuals in the wrong way) and should be repealed regardless of the decision on integration of the corporation and individual income taxes (see item 13 below).

7. Personal deductions. The personal deductions under the individual income tax are much too generous. In 1975, 72 percent of the itemized deductions were reported on returns with income above \$15,000. Moreover, the personal deductions are a major cause of the complexity of the individual income tax return and of the difficulties of taxpayers in preparing their returns. Equity and simplicity would be served if the deductions were pruned to a minimum.

The only essential deductions are for extraordinary medical expenses and casualty losses (for example, more than 10 percent of income), charitable contributions above a reasonable minimum (for example, 2 or 3 percent of income), and interest paid up to the amount of property income reported on the tax return. The deduction for income taxes might be continued to encourage the use of state income taxes. If it is deemed necessary to subsidize homeowners, a deduction for the first \$3,000 of property taxes and an additional \$2,500-\$5,000 of interest (over and above the amount of property income) might be allowed.

If these possibilities are politically unacceptable, one alternative is to place a floor of, say, 10 percent on itemized deductions, but this approach was rejected by Congress in 1964. Another alternative is to design a special rate schedule with lower rates for taxpayers who do not itemize and waive the use of any special tax credits. This would permit the adoption of a simple tax return for the large majority of taxpayers.

8. Treatment of the elderly. The elderly receive excessively generous treatment. Those over 65 years of age receive an extra \$750 exemption and an extra tax credit of \$35, pay no tax on their social security benefits, and receive a 15 percent tax credit on the first \$2,500 of other income (less any social security or other exempt pension income) for single persons and \$3,750 for a couple. The credit is phased out for those with earnings above \$7,500 if single, and \$10,000 if married. Despite recent simplifications, the credit

complicates the tax return unnecessarily. The case for any special treatment of the elderly is weak; if some preference is considered necessary, the additional per capita exemption should be sufficient.

9. Transfer payments. Social security benefits, unemployment compensation, workmen's compensation, welfare benefits, and other transfer payments are tax-exempt. It would be better to tax all transfers and to raise the personal exemptions so that those with inadequate total incomes are exempt from tax. Since the social security system is financed in part by an employee payroll tax which is not deductible in computing taxable income, only half of social security income might be included in the tax base. Unemployment and workmen's compensation should be fully taxable. Other transfer payments might continue to be excluded because they are received by persons who would not be taxable in any case.

10. Treatment of the family unit. The present four rate schedules are the result of piecemeal legislation to differentiate between taxpayers in different marital statuses and with different family responsibilities. The complications are of major proportions, yet the result pleases no one. Single persons still believe they are overtaxed; married couples with two earners also believe they are overtaxed, even though they benefit from income splitting. The only solution is to adopt one rate schedule for all taxpayers and make allowances for family size through the personal exemption or tax credit. To avoid the penalty on marriage, a generous deduction should be allowed for two-earner couples (say, 10 percent of the earnings of the spouse with the lower earnings up to \$2,500).

Adoption of one rate schedule would lower the tax liabilities of single persons as compared with married couples. This seems reasonable, because there is no logical reason why the tax of high-income individuals should be reduced substantially (as is done today) when he or she marries a person with little or no income.

11. Personal exemptions, tax credits, and the standard deduction. Allowances for the taxpayer and his family are now provided by a per capita exemption of \$750 and a per capita tax credit of \$35. In addition, a flat standard deduction of \$2,200 for single persons and \$3,200 for married couples is allowed. The objective

of these provisions is to avoid taxing people who are officially classified as poor. The exemption and the credit serve the same purpose — they make allowances for family size — but the two together complicate the tax return. If rates are altered, the same average effective tax rates can be achieved for all income classes with an exemption or a credit. The difference between the two is that the credit increases the tax value of an additional dependent in the lower brackets and reduces it in the upper brackets. Middle-income taxpayers who are near the breaking point receive little or no benefit from the credit. The standard deduction should be adjusted upward periodically to keep pace with inflation.

12. Withholding on interest and dividends. Even though information forms are required for virtually all interest and dividend payments, the amount of underreporting of these items (particularly interest) is substantial. When it last considered the matter thirteen years ago, the Senate preferred to enforce the tax on interest and dividends through information returns rather than withholding. But it is now clear that the IRS will never be given sufficient resources to match the tens of millions of information forms with tax returns. The only solution is to add interest and dividends to the withholding system.

13. Business taxes. Business tax reduction is inevitably regressive and, therefore, should be moderate. Any form of integration of the corporation and individual income taxes would be costly and reduce progressivity. If integration were in the form of individual relief, great pressure would be put on corporations to increase dividend payouts and national saving (and investment) might be reduced. Faster depreciation, additional investment tax credits, and a reduced corporate rate should be considered as an alternative to integration. If integration is proposed, the tax rates should be adjusted to offset its regressive effect.

14. Tax rate reduction. Comprehensive tax reform requires rate reduction to prevent inordinately large tax increases for those who lose preferences. In addition, lower tax rates would improve economic incentives and reduce the tendency to seek tax shelters. The goals should be to reduce the tax rates from the present range of 14-70 percent to 10-50 percent, but this goal can be reached only with a tough tax reform package. The rates should be designed to give

significant tax reductions to middle- as well as to low-income taxpayers.

Illustrative Tax Reform Packages

The building blocks can be combined in many ways for purposes of tax reform. To illustrate the possibilities, three individual income tax packages are summarized in Table 1. (Business taxes are dealt with in the accompanying memorandum.)

Package A — the most ambitious package — would eliminate the capital gains and the other major preferences, set tough rules for business expense account deductions, remove the tax advantages of the elderly, tax half of social security benefits and all unemployment and workmen's compensation payments, slash the personal deductions, substitute one tax rate schedule for the present four schedules, use only the personal exemption (rather than an exemption and a credit), and withhold on interest and dividends. This package would be a tax reformer's dream, but it would be unacceptable to important groups in society.

Package B is designed to simplify, as well as reform, the income tax. It is the same as Package A, with the exception that the tax advantages of the elderly remain untouched and a lower rate schedule is provided for taxpayers who waive all personal deductions and tax credits. (The schedule is calculated to convert itemized deductions up to about 10 percent of income to rate reductions.) Package B, which I prefer, would permit all but a relatively few taxpayers to fill out a simple tax return form without any deductions or credits.

Package C is similar to Package A, with the exception that fewer itemized deductions are eliminated, business expense accounts are dealt with more leniently, and there is no change in the treatment of transferred capital gains, the present four rate schedules, and transfer payments. In addition, a \$200 per capita credit is substituted for the present exemption and per capita credit. Package C is virtually identical to the Treasury proposals. Because it does not tax transferred capital gains, it cannot be as progressive as Package B.

Moreover, conversion of the exemption to a credit reduces the amount of the tax reduction that can be given to middle income taxpayers.

TABLE 1

Illustrative Individual Income
Tax Reform Packages

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Capital Gains</u>				
Tax capital gains as ordinary income	4.4	x	x	x
Tax capital gains transferred by gift or at death	7.3	x	x	x
<u>Business Preferences</u>				
Eliminate percentage depletion	1.3	x	x	x
Eliminate deferral through DISCs	1.2	x	x	x
Eliminate deferral of income through foreign controlled corporations	0.6	x	x	x
Eliminate remaining tax shelters	1.0	x	x	x
<u>Business Expense Accounts</u>	1.0			
Adopt per meal and per diem limits	a	x	x	
Eliminate deductions for club dues, yachts, and so forth	a	x	x	x
Eliminate deductions for sports and theatrical events	a	x	x	x
Limit air travel deductions to coach fares	a	x	x	
<u>Other Preferences</u>				
Adopt subsidized taxable bond option	-0.5	x	x	x
Tax interest on life insurance savings	1.7	x	x	x
Eliminate dividend exclusion	0.4	x	x	x

-continued-

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of the Elderly</u>				
Eliminate elderly tax credit	0.5	x		
Eliminate special exemption for the aged and the blind	1.2	x		
<u>Transfer Payments</u>				
Tax one-half of social security benefits	1.8	x		
Tax unemployment and workmen's compensation payments	3.3	x	x	
<u>Personal Deductions</u>				
Eliminate all deductions for taxes except state-local income taxes	6.5	x		
Eliminate deduction for state sales taxes	1.5			x
Eliminate deduction for gasoline taxes	0.7		x	x
Introduce 2 percent floor for char- itable contributions	2.0	x		
Allow deductions for medical expenses and casualty losses for amounts ex- ceeding 10 percent of income	1.3	x		x
Limit interest deductions to property income plus \$2,500	0.5	x		
Limit interest deductions to property income plus \$10,000	0.1			x
Special lower rate schedule for non- itemizers	b		x	

-continued-

TABLE 1 (continued)

Tax items	Revenue effect (billions of dollars)	Pack- age A	Pack- age B	Pack- age C
<u>Treatment of Family Unit</u>				
Substitute one rate schedule for the present four schedules	b	x	x	
Deduction of 10 percent (up to \$2,500) of earnings of spouse with lower earnings	-3.0	x	x	
Deduction of 10 percent (up to \$600) of earnings of spouse with lower earnings	-1.7			x
<u>Exemptions, Tax Credits, and Standard Deduction</u>				
Convert the exemption and credit to an exemption of \$1,000	-2.5	x	x	
Convert the exemption and credit to a credit of \$200	6.5			x
Standard deduction of \$3,500 for married couples and \$2,500 for single persons	-2.0	x	x	
<u>Withholding</u>				
Withhold on interest and dividends	1.5	x	x	x
<u>Individual Income Tax Rates</u>				
Schedule A rates	c	x		
Schedule B rates	c		x	
Schedule C rates	c			x

-continued-

TABLE 1 (concluded)

NOTE: All packages assume elimination of the minimum tax and the maximum tax on earned income.

a. Revenue effect is difficult to calculate. Total revenue gain from all the proposed revisions of business expense account deductions probably would raise more than \$1 billion a year.

b. Rate schedule would be calculated to convert itemized deductions up to 10 percent of income to rate reductions.

c. Rate schedule would be set to yield the desired revenue and progressivity objectives.

June 16, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Joe Pechman

SUBJECT: Integration of the Corporation and Individual
Income Taxes

I believe it would be unwise to include integration in the forthcoming tax reform package. Any form of integration will be costly and reduce progressivity. Integration will make equities more attractive, but it may reduce private capital formation, rather than stimulate it.

There are two types of integration—"full" integration and "partial" integration—and both have significant weaknesses. Under full integration, corporate earnings are taxed to shareholders and they receive a full tax credit for the corporate tax (which becomes merely a withholding tax). Under partial integration, shareholders include the corporate tax paid on their dividends in their income and they receive a tax credit for the amount of corporate tax so included. In effect, full integration eliminates the entire corporate tax; partial integration removes the corporate tax only to the extent earnings are paid out.

Partial Integration

Partial integration would put great pressure on corporations to increase dividends if the top individual income tax rate were brought down to the level of the corporate rate. Given such rates, a corporate manager who retained any part of the earnings of a corporation would be denying his shareholders (except those subject to the top rate) a tax credit for the retentions. In effect, the shareholder would be making a forced loan to the corporation for the credits he was denied.

I would expect that the pressure to distribute would be so great that corporations would increase dividend payouts and request

their stockholders to reinvest their dividends automatically through dividend reinvestment plans. The earnings that would be available for corporate reinvestment could be no higher than it is at present; it would be lower to the extent that the shareholders did not reinvest their dividends. The corporation could turn to the capital markets for additional funds; but, even if stocks became more attractive, it is uncertain whether the corporations would or could replace their lost retained earnings from outside sources. In these circumstances, the vulnerability of some businesses to financial market conditions would be increased and corporate investment might be reduced.

Another reason why investment might be reduced is that the integration proposals envisage denying the corporate tax preferences in calculating the corporate tax credit allowed to shareholders. The most important of the preferences is the investment credit, which now amounts to almost \$10 billion a year. Denial of the preferences is considered necessary to reduce the revenue loss from integration and also to avoid the criticism that the shareholder would otherwise be given a credit for a tax he did not pay. A pass-through of the investment credit to shareholders would treat them on a par with sole proprietorships and partnerships, but the criticism will be hard to respond to. Under the circumstances, the effectiveness of the investment credit as a stimulus would be undermined.

Full Integration

Full integration has the merit that it would provide tax credits for shareholders whether dividends were paid or not. Thus, there would be no pressure on corporations to increase their payouts. (In fact, the availability of the credits might justify reducing payouts.) Internal funds for investment purposes are therefore likely to be unimpaired and might even be increased.

The difficulty is that a pass-through of the investment credit is even less likely under full than under partial integration. Again, the greater attractiveness of corporate equities might offset the incentive lost by the effective repeal of the investment tax credit, but there is considerable danger that it would not.

Another problem with full integration is that it will be difficult to implement. Shareholders will be required to keep track of the corporate earnings on which they were taxed and therefore automatically reinvested. In addition, an arbitrary rule would be required to allocate earnings to part-year shareholders. These problems are not insuperable, but they make full integration less attractive.

Finally, under both integration schemes, tax exempt organizations would not be given any credit for the corporation tax paid on their shareholders. This is considered necessary to avoid the loss in revenue, which would be of the order of \$6-12 billion (depending upon which method was used). The denial of the benefits of integration to pension funds will be regarded as a discrimination against labor; and educational and other nonprofit organizations will argue that this back door method of taxing them should be removed when the burden of the corporation income tax is being lifted from nontaxable individuals.

Conclusion

I conclude that it would be unwise to give up a significant amount of revenue for integration and to link it with the forthcoming tax reform package. The issues in integration are serious enough to warrant additional study before a presidential recommendation is made. Moreover, if the objective is to stimulate capital formation, it would be more effective to provide direct incentives through such devices as more acceleration of depreciation and an improved or enlarged investment credit. A cut in the corporate tax rate, say, from 48 to 45 percent, would also be in order if individual income tax rates are reduced. To keep the regressive effect of business tax changes to moderate proportions, the net tax cut to corporate enterprises—after making adjustments to offset the revenues gained from the removal of preferences—might be limited to \$2-3 billion.

THE WHITE HOUSE
WASHINGTON

June 22, 1977

MEMORANDUM FOR:

THE PRESIDENT

FROM:

STU EIZENSTAT
BOB GINSBURG

SUBJECT:

Tax Reform

We are concerned that in considering a long list of pro and con arguments on various tax preferences, we not lose sight of the forest for the trees. One of the fundamental objectives you have established for tax reform -- and the one thing tax reform specialists and the general public care about more than any other -- is a fairer, more progressive tax system.

When you say that the tax system is a "disgrace", we understand you to mean that it is a disgrace because it is riddled with complex preferences, which are available to the wealthy and not the average taxpayer and which enable the wealthy to avoid paying their fair share -- with low and middle income taxpayers left to pick up the bill. We think that the main reason your campaign for tax reform has elicited such a strong response is that the man in the street agrees and identifies with this perception.

In that connection, we would like to make the following points about the Treasury program in its present form:

1. (a) The Treasury program will actually reduce the average tax paid by those in the \$50,000-\$100,000, \$100,000-\$200,000, and \$200,000 and over income classes. See Annexes A-1 and A-2 which provide a comparison between the effective tax rates (actual taxes paid as a percentage of income) under current law and those proposed under the Treasury program. Individuals in the \$50,000-\$100,000 income class will even get a larger percentage reduction than those in the \$15,000-\$20,000 income class.

(b) For both the expert and the average taxpayer, the bottom line for judging our tax reform will be who gets what -- how much relief do we deliver to low and middle income taxpayers and do we really try to make the wealthy pay their fair share. Yet under the current Treasury program the average \$200,000 taxpayer will receive a tax reduction at least 10 times greater than that given to the average \$15,000 taxpayer.

(c) If the effective tax rates of those in the \$50,000 and over income classes were merely left unchanged rather than being reduced, we would have an extra \$3.5 billion to either save or distribute to the lower income brackets.

2. Another way to look at the fairness or progressivity of our tax reform program is to examine its effect on who bears the tax burden, i.e., the percentage distribution of the total income tax burden borne by the different income classes. See Annex B. Under the Treasury program, taxpayers in the \$15,000-\$20,000 bracket (as well as the \$20,000-\$30,000 bracket) will actually bear a greater share of the overall tax burden than they do now. That kind of a result could lead to the devastating charge that our tax reform package strikes at the middle class. There may be difficulty in securing broad public support for a tax reform package which increases the percentage of the tax burden borne by the middle class.
3. The current Treasury program would cut marginal tax rates from 70 to 50 at the top and 14 to 13 at the bottom. As Annex C indicates, more of the benefits from these rate cuts will go to those making over \$50,000 than to the far greater number of taxpayers making less than \$20,000. The rate cuts currently proposed by Treasury would result in a revenue loss of \$22.9 billion, with the 1 million taxpayers in the over \$50,000 income class getting greater total reductions than the 74 million taxpayers (of which 52 million have positive tax liability) in the under \$20,000 class.

4. The need for greater progressivity in the Treasury program becomes further evident when we recognize that the income tax is the only real opportunity we have to achieve an overall progressive Federal tax structure -- payroll taxes weigh much more heavily on working people than they do on the wealthy. If Treasury's charts and tables reflected payroll as well as income taxes, the positive impact of the Treasury program on overall progressivity would be even smaller than it is now.

If the top marginal tax rate is to be cut to the neighborhood of 50, there remain several ways in which we can make the overall package more progressive than it is now:

- (a) The most significant would be to bear down more vigorously on the tax preferences which benefit corporations and the wealthy and distribute the revenue gained to low and middle income taxpayers by way of greater tax cuts. For example, full taxation of capital gains on property transferred by gift or bequest would raise \$7.3 billion in additional revenues. That item alone would substantially increase the progressivity of our reform package. Over \$11 billion in additional revenue could be raised through items such as: deferral of tax on foreign profits; "expense account" entertainment dining, and travel; the special depletion allowance for hard minerals; interest on consumer loans; a 2-3% floor under the deduction for charitable contributions; the interest buildup in insurance and annuity contracts; and unemployment insurance payments. In the case of itemized personal deductions, either Joe Pechman's proposal of a lower rate schedule for those who do not itemize and a higher rate schedule for those who do or a direct floor on itemized deductions would raise significant amounts of revenue.
- (b) Treasury's current proposal to eliminate double taxation (the dividend credit method) would cost almost \$10 billion in the first year and increasing amounts in subsequent years. Reducing the dividend credit from the 100% presently being proposed by Treasury to 50% would save almost \$5 billion in revenues which could be distributed to low and middle income taxpayers. Alternatively, many economists feel that other methods of

business tax reductions (investment tax credits, accelerated depreciation) would provide more stimulus to business investment and at a considerably reduced cost.

- (c) If you were to accept the present Treasury program as is without eliminating any further tax preferences, the only way you could achieve greater progressivity and more relief for low and middle income taxpayers would be to spend additional revenues to provide larger tax cuts for individuals in those brackets.
- (d) Even within the restrictions imposed by a top marginal rate in the neighborhood of 50, some modest increase in the progressivity of our package can be achieved (without any further revenue loss) by lowering the income level at which that rate would apply from the \$80,000 currently proposed by Treasury to, say, \$60,000 -- this would make some additional revenue available for those at lower income levels.

In order to make any headway against the lobbyists and special interests who will oppose practically every one of our specific reform proposals (with probably as much vigor if our proposals are timid as if they are bold), you will have to be able to personally sell the overall program to the American people. We think the key to your ability to do that will be what our program actually delivers -- in terms of tax reduction, progressivity, and distributional burden -- for the average taxpayer.

We remain concerned that Treasury is not producing a program which will enable you to meet this challenge. We think direction from you is necessary and recommend that you approve the guidance set out below.

Presidential Guidance

1. Ask Treasury for an alternative reform package which is more progressive than their current program. Specifically:

(a) Greater tax reductions should be provided for middle income taxpayers so that the relative share of the overall tax burden borne by the middle class is reduced, not increased as it is under the current Treasury program.

(b) The average taxes paid by individuals in the \$50,000 and over brackets should be maintained at about their present levels or reduced more slightly than they are under the current Treasury program -- with the saving in revenues distributed to low and middle income taxpayers.

2. Ask Treasury to attempt to identify more tax preferences that could be eliminated than are covered by their current program.
3. Ask Treasury for additional efforts to achieve simplicity for the average taxpayer. Careful consideration should be given to encouraging reduced use of itemized deductions either through a lower rate schedule for those who do not itemize or a reasonable floor on itemized deductions.

Would you like us to prepare a memorandum from you to Treasury on these points?

_____ Prepare memorandum

ANNEX A-1

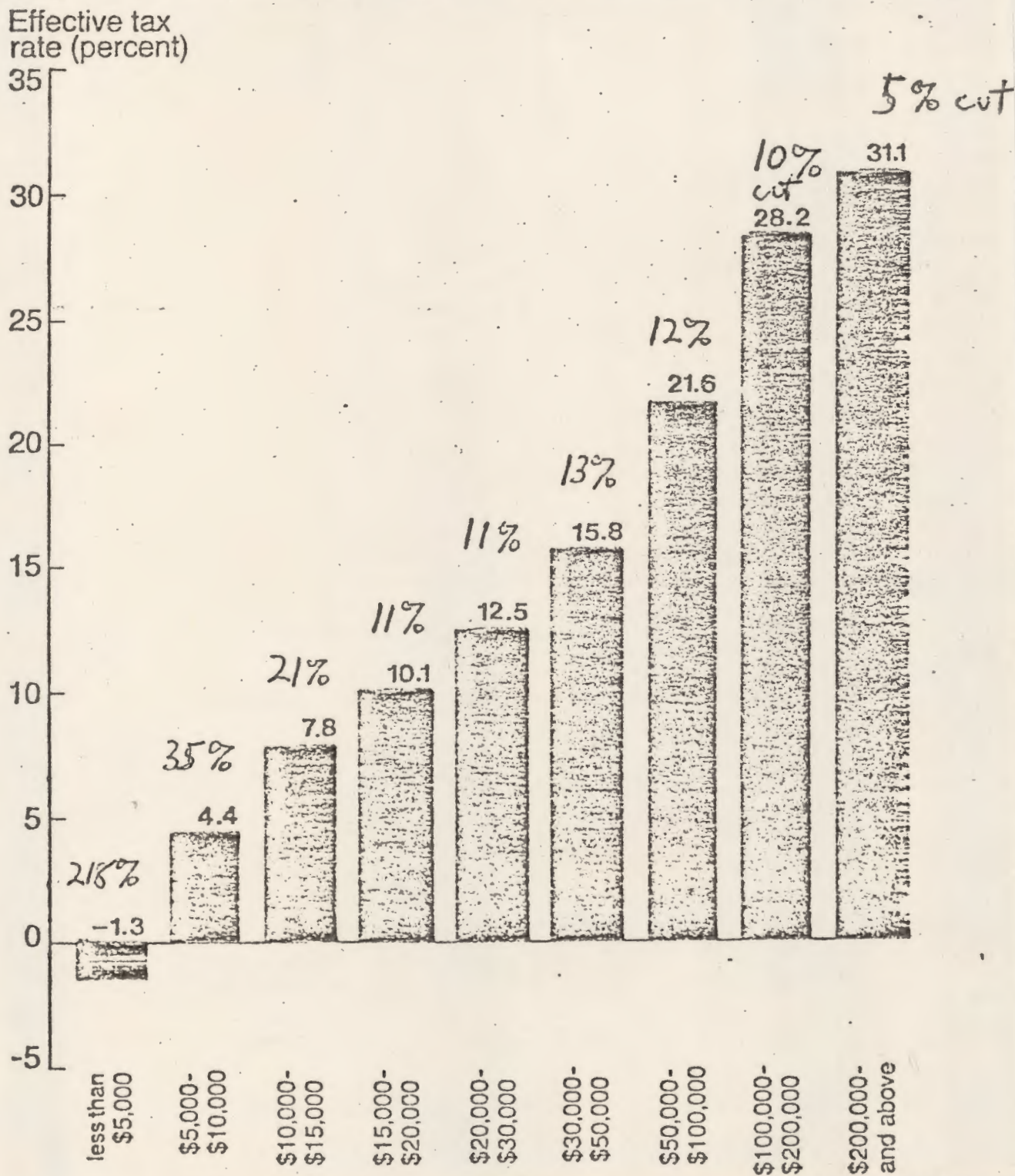
Effective Individual Income Tax Rates as a Percent of Expanded Income, 1976

Effective tax rate (percent)



ANNEX A-2

Tax Reform Program: Effective Individual Tax Rates as a Percent of Expanded Income, 1976 Level of Income.



ANNEX B

Percent Distribution of Tax Burden by Expanded Income Class, 1976 Level of Income

Expanded Income Class	:	1976 Law	:	After All Proposals Except Business	:	After All Proposals
(000)						
Below 5		0.4		0.0		-0.6
5-10		7.2		5.7		5.4
10-15		14.0		13.2		13.1
15-20		[16.8]		16.9		[17.3]
20-30		[23.6]		24.4		[24.8]
30-50		15.8		16.4		16.5
50-100		11.8		12.0		12.1
100-200		5.8		6.3		6.3
200 and over		<u>4.6</u>		<u>5.4</u>		<u>5.3</u>
Total		100.0		100.0		100.0

Office of the Secretary of the Treasury
Office of Tax Analysis

May 17, 1977

ANNEX C

Effects of Selected Tax Reform Proposals

Adjusted Gross Income (000)	: Current Tax : \$215 Personal Exemption Credit Reduced Tax :		: Capital Gains :						: Minimum Tax :		: Itemized :			
	: Law 1/ :		: Rates; Working Spouse Exclusion :						: Changes :		: Repeal :		: Deductions Changes :	
	: % :		: Personal : Reduced : Working : : % :						: % :		: % :		: % :	
	: Amount :	: Distri- :	: Exemption :	: Tax :	: Spouse :	: Total :	: Distri- :	: Amount :	: Distri- :	: Amount :	: Distri- :	: Amount :	: Distri- :	
	: bution :	: Credit 2/ :	: Rates :	: Exclusion:	: bution :		: bution :		: bution :		: bution :		: bution :	
Below 5	173	0.1%	- 241	- 60	*	- 301	1.5%	74	2.0%	- 9	5.4%	4	0.1 %	
5 - 10	8,321	6.1	- 592	- 825	- 42	- 1,459	7.1	160	4.3	*	*	96	2.6	
10 - 15	18,208	13.4	18	- 2,098	- 331	- 2,411	11.7	223	6.0	*	*	368	9.9	
15 - 20	23,114	17.0	767	- 3,188	- 492	- 2,913	14.2	237	6.3	- 6	3.6	642	17.3	
20 - 30	33,237	24.5	1,739	- 5,487	- 539	- 4,287	20.9	219	5.9	- 4	2.4	1,186	32.0	
30 - 50	22,383	16.5	1,414	- 4,717	- 221	- 3,524	17.1	602	16.1	- 14	8.3	786	21.2	
50 - 100	16,662	12.3	755	- 3,875	- 73	- 3,193	15.5	682	18.3	- 26	15.5	437	11.8	
100 - 200	7,967	5.9	167	- 1,474	- 16	- 1,323	6.4	595	15.9	- 37	22.0	144	3.9	
200 and over	5,765	4.2	40	- 1,178	- 3	- 1,141	5.6	941	25.2	- 70	41.7	37	1.0	
Total	135,831	100.0	4,066	-22,902	-1,717	-20,553	100.0	3,735	100.0	-168	100.0	3,703	100.0	

* Less than .05 percent or \$500 thousand.

Note: Details may not add to totals due to rounding.

1/ This is 1977 law, including the flat standard deduction of \$2,200 for singles and heads of households, and \$3,200 for joint returns, as contained in the conference report on the stimulation package.

**Andy Young
And Family**

—See Portfolio

**Country Chic
In Full Color**

—See Home Life

**Polanski's
Trials and . . .**

—See Calendar

**New Md. Whiz
Albert King**

—See Sports

**1st American
Male Saint**

—See Comment

**Billy Martin
Vs. Jackson**

—See Sports

Clearing Up

Clearer and less humid today, high in 80s. Partly cloudy tonight, low near 70. Chance of rain 10 percent through tonight. Details: E-5.

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Carter Hopes to Reduce Top Tax Rate to 50 Percent

By Lee M. Cohn

Washington Star Staff Writer

The Carter administration hopes to cut the top tax rate for individuals from 70 to 50 percent in a package of smaller rate reductions in lower income brackets, Treasury Secretary Michael Blumenthal says. The general rate reductions are needed at least to compensate for inflation, and the top tax rate should exceed 50 percent because incentives are blunted when the government grabs more than half of a dollar of income, Blumenthal said in an interview.

While emphasizing that there have been no firm decisions on President Carter's recommendations, Blumenthal said the administration's "comprehensive" tax reform program may also include proposals to:

- Tax capital gains on the same basis as ordinary income, thus eliminating the present preferential treatment.
- Tighten limits on deductions of interest payments.
- Eliminate various other deductions and exclusions from taxable income.
- Encourage business investment by cutting corporate tax rates, increas-

Lower Brackets Would Get a Break, Too

ing the investment tax credit, enlarging depreciation deductions or reducing "double taxation" of corporate profits.

BLUMENTHAL SAID it is too soon to judge which options the President will choose to carry out his broad pledges to make the tax system simpler, fairer and more effective in promoting economic growth. He made it clear, however, that the administration wants to put a 50 per-

cent ceiling on individual income tax rates.

"It would be a very good thing if people knew they could keep at least half of what they make, no matter what the source," he said. "When the marginal tax rate gets up to 70 percent, people say, 'What's the point?' They start to invest in strange ways, in ways that are not socially useful (to avoid the high tax rates)."

Present law does limit the tax to 50 percent on "earned" income, defined

as wages, salaries, fees, commissions and other compensation for personal services. The marginal rate goes up to 70 percent, however, on such "unearned" income as dividends, interest and rents.

"I've never understood the reason for different treatment of income from savings and income from wages," Blumenthal said. "Why should I be punished because I've saved my marbles? It's almost a moral judgment that there's something indecent about saving and earning interest. Actually, saving is essential to the economy."

BESIDES LOWERING the top tax rate, the administration hopes to trim "a few percentage points" off the 14 percent rate on the bottom income bracket, Blumenthal said. A reduction in the rate on the bottom bracket would cut taxes for all taxpayers. Carter also could recommend reductions in intermediate brackets.

Tax cuts are necessary from time to time just to keep taxpayers even, Blumenthal said. Inflation lifts taxpayers into higher percentage rate brackets, even if purchasing power

See TAXES, A-11

TAXES

Continued From A-1

does not increase. Congress cuts taxes to compensate for this "bracket creep."

Rate cuts could be deeper without net losses of Treasury revenues if taxes were levied on all or almost all income. The administration is applying this principle by trying to "eliminate exclusions and exceptions that can't be justified," Blumenthal said.

Almost everybody likes this idea in the abstract, but there's trouble when particular deductions are targeted for extinction.

"You may start out with the idea that income from virtually all sources should be taxed, but at a much lower rate," Blumenthal said. "Then somebody will say, 'Are you actually suggesting that we tax black lung benefits?' Logic may dictate exactly that, but obviously it's just impossible."

IT WOULD BE premature to indicate which deductions and exclusions may be on the President's hit list, Blumenthal said. He acknowledged, however, that one possibility would be tightened limits on deductions of interest payments.

Present law limits deductions of interest on money borrowed for investment, but deductions are unlimited on "personal" interest, such as interest on consumer loans and home mortgages.

The "average" homeowner need not worry about losing his deduction for mortgage interest payments, Blumenthal said. But he said he was not ruling out the possibility of a dollar ceiling set at a high level to bar extraordinarily large personal-interest deductions — for a mansion and several vacation homes, for example.

Carter indicated during the campaign that he favored taxing capital gains on the same basis as ordinary income. Blumenthal said this still is under serious consideration, although the issue has not been settled.

TAXPAYERS NOW CAN exclude from taxable income half the capital gain from the sale of stocks, real estate and other

assets, so that the gains are taxed, in effect, at half the rate on ordinary income, such as salaries and interest. Capital gains in many cases also are subject to an extra minimum tax.

The effective tax on capital gains now averages more than 40 percent, Blumenthal estimated. If the ceiling on income tax rates were lowered to 50 percent, full taxation of capital gains would not be such a heavy extra burden, he said.

"That would help a great deal to simplify the tax system," he said. "The effort to shift income to capital gains causes a lot of the complications."

But the issue is complicated, he said. Often when an asset is sold all or a large part of the capital gain reflects inflation, not real gains, he said. To be fair, he said, it might be necessary to exclude a portion of capital gains from taxation if they were taxed as ordinary income.

CARTER IS WORRIED about inadequate business investment in expansion and modernization of plants and equipment. He is determined to provide additional tax incentives for such investment. Blumenthal outlined the main options, but said there are no indications which will be chosen by the President.

Probably the simplest, most straightforward incentive for investment would be a reduction of the corporate tax rate, which now is 20 percent on the first \$25,000 of profits, 22 percent on the next \$25,000 and 48 percent on profits over \$50,000.

Although tax cuts make investments potentially more profitable, the incentive is general, not sharply focused.

Carter may prefer a more direct incentive to encourage capital outlays, such as liberalization of the investment tax credit. This provision subsidizes investments by allowing companies to subtract from taxes due up to 10 percent of the cost of new machinery and equipment.

The incentive could be strengthened by increasing the credit above 10 percent and by removing certain limitations on its use.

THE CREDIT NOW does not help companies that owe no taxes because they earn no profits. Loss companies could be encouraged to invest if the Treasury paid them the amount of the credit in cash.

Companies deduct the cost of plant and equipment from taxable income over a period of years supposedly related to their "useful lives." This is called depreciation. There are many ways to permit faster depreciation and larger deductions, which would reduce taxes, increase profitability and leave more cash available for additional investment.

Another proposal is to allow depreciation deductions up to the estimated replacement cost of plants and equipment. By allowing for inflation, the system would permit deductions to exceed actual outlays by the companies.

The administration also is considering several methods of reducing or eliminating so-called double taxation of corporate profits, as a way to encourage investment. Profits now are taxed as earned by the corporation, and again when received by stockholders as dividends.

BUSINESS AND financial leaders are widely split on proposals for dealing with double taxation, Blumenthal said. Some remedies would sharply reduce taxation of corporations and stockholders, but other versions could raise taxes in many cases.

Tax increases and reductions in the reform package are almost certain to produce a net tax cut, and so a net revenue loss to the Treasury on the usual basis of computation. This could create problems for fulfillment of Carter's pledge to balance the budget by fiscal 1981. Blumenthal refused to disclose what revenue target the President has set for the package.

Revenue estimates in tax bills can be misleading, Blumenthal said. If taxes are cut in a way that boosts the economy, he said, taxable incomes and profits may rise enough to increase total revenues. The administration will try to estimate these "economic feedback" effects, he said.

CARTER HAS HELD two long meetings on tax reform so far with Blumenthal, Laurence N. Woodworth, assistant secretary of the Treasury for tax policy, and other key advisers. A third meeting, at which the options may be narrowed, probably will be held around the end of June.

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

June 23, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: Charlie Schultze *CLS*

SUBJECT: Update on the Economic Situation

The Pace of Economic Growth

Growth of real GNP this quarter apparently will be close to the 6.9 percent annual rate of the first quarter. The Commerce Department's unpublished preliminary estimate for the second quarter is 6.4 percent. This estimate seems more likely to be revised up than down as more data become available.

- . Construction in the second quarter is rebounding sharply from cold-weather induced delays earlier this year. Both residential building and State and local construction are moving up strongly.
- . Business equipment production has increased at an annual rate of 18 percent over the past three months.
- . Inventory investment is continuing to increase. Business reports do not indicate problems of overstocking.
- . The rise of consumer spending has slowed somewhat as the consumer saving rate has increased from an abnormally low level. Retail sales in April and May rose less than half as rapidly as in the prior three months, but are still running at a high level. Auto sales have remained well above the most optimistic industry projections made this spring.

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- . Personal income appears to be rising about as rapidly this quarter as it did in the first quarter. Employment gains through May have remained very large.

Not all the news has been good:

- . The recent Commerce Department survey of business investment plans implies a very weak rise in these outlays over the latter half of 1977. This appears to us inconsistent with the upward trend of orders and contracts for new plant and equipment. We anticipate some upward revision in these spending plans over the months ahead, but we cannot be sure.
- . Foreign trade data through April indicate larger merchandise trade deficits than we had expected. Oil imports have begun to decline, but have gone down less than we expected. Other imports have risen strongly. Our exports -- particularly exports of machinery -- have remained relatively weak, reflecting the sluggish pace of recovery abroad.

The Rate of Inflation

Recently, we have seen some signs of the expected moderation of the rise in food prices that plagued us earlier in the year. Wholesale prices of farm products declined 2.3 percent in May, following large increases that extended over five months. Good spring rains and large planting figures are helping to keep grain prices down and the winter wheat crop is close to last year's record. Futures prices for cattle have eased -- although they could turn around later. Consumer food prices rose less in May than the average for the previous four months, and the rise in overall consumer prices also slowed -- to 0.6 percent.

Another favorable price development recently has been the trend of sensitive industrial materials prices. The Federal Reserve Board's index of these prices rose about 12 percent from early November 1976 through early April, but since then has fallen about 6 percent.

Despite these favorable developments, we believe the underlying rate of inflation is still in the range of 6 to 6-1/2 percent, and has shown no improvement. Wage and fringe benefit increases are running at about 8 to 8-1/2 percent a year, the same as last year.

Financial Conditions

In April the Federal Reserve took actions to restrict the growth of money in response to sharp increases in the money supply. As a result, short-term market interest rates increased.

Since the end of April, the narrowly-defined money supply (M_1) -- which consists of currency and checking deposits -- has remained unchanged. Short-term market interest rates have come down a little but are still about one-half percentage point above their levels in early April. Long-term rates did not respond much to the Federal Reserve's tightening measures, and they are now generally at or a little below their levels in early April.

Participants in financial markets now appear to expect smaller increases in short-term interest rates during 1977 than they did earlier this year. Fears of a severe tightening of monetary policy this year seem to have waned.

Stock prices have improved somewhat since late May, but there are no clear signs yet that the markets for equities have come out of the doldrums. The broader indexes of stock prices are still 6 percent below their levels at the beginning of this year.

The Outlook

We expect real economic growth to slow to a little over 5 percent in the second half of this year. Residential construction, inventory investment, and personal consumption are all expected to grow at a slower rate. State and local government expenditures should grow more quickly, however, as the stimulus program begins to take effect. Some catchup from the Federal expenditure shortfall is also expected.

This forecast for the second half of 1977 is predicated on the assumption that business investment will rise more strongly than the recent Commerce survey of business plans indicates. Optimism on this score seems to us warranted at the present time.

- . If we are correct in this assumption, growth in real output from the fourth quarter of 1976 to the fourth quarter of 1977 will probably be within our 5-3/4 to 6 percent growth target.
- . If investment spending weakens, growth in real output this year would probably be at, and conceivably could be slightly below, the lower end of that range.

Prospects for hitting our target growth rate of 5 to 5-1/2 percent for 1978 hinge crucially on the outlook for business fixed investment. Our present forecast is for a growth rate a little under 5 percent during the four quarters of 1978, even assuming a strong rise of business plant and equipment spending and no Federal expenditure shortfall in 1978.

5
1